

# **The Business Plan**

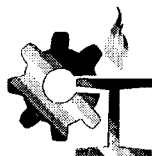
## **Step-By-Step**

Michael  
O'Donnell

# **The Business Plan: Step by Step**

**The most complete workbook for preparing and  
writing an effective business plan**

**By:  
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**The Center for Innovation** helps entrepreneurs, students and researchers launch new ventures, technologies and products, develop business and marketing plans, and access the talent of UND and secure sources of venture financing. The Center manages the Technology Incubator which hosts 18 entrepreneur ventures employing more than 80 people, half with advanced degrees. The Center was among the first technology and manufacturing entrepreneur outreach centers in the nation, and has helped launch more than 300 new ventures and technologies since it was formed in 1984. The Center has received three national awards for achievement and excellence in technology entrepreneurship. For more information, visit our website at [www.Innovators.net](http://www.Innovators.net)

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# Preface

*“Never tell people how to do things.  
Tell them what to do and they will  
surprise you with their ingenuity.”*

**General George S. Patton, Jr.**

This quote is fitting for today’s entrepreneurial spirit and reflects the spirit of this publication. America is experiencing a boom in new business start-ups. Entrepreneurs are the heroes. They develop new products, they encourage innovation, they create new jobs. Unfortunately, many of them fail because they don’t know what they are getting into to begin with. This knowledge gap has given rise to “entrepreneurial consultants” and “new business experts.” There are probably as many “professional advisors” out there as there are new business startups. Because each new business start-up is different, a lot of this advice is confusing and even conflicting.

This Business Planning Guide is a series of exercises. It tells you *what* to do (or be thinking about), not *how* to do it. Starting a business requires perseverance. You must take initiative and utilize whatever resources are available to you. We don’t have all the answers and there is no way we can tell you where to go to find them without making this publication so voluminous, it would be unreadable. The guide may be imposing for some, as is, but it is so by necessity. Writing a business plan can be a time consuming and tedious task. It can also be very enlightening and rewarding. No matter what your objective may be with a start-up venture, you stand a much better chance of profiting from it with a well thought out business plan.

This guide was written to help you identify basic issues, address the details, and write a comprehensive business plan. First and foremost, it is a guide that recognizes that effective business plans must be tailored to unique circumstances. There are many “how to” publications and seminars being promoted about business planning that do not truly embrace this simple fact in their material. They may be good for motivating people, but usually they neglect the details involved in starting or expanding a venture, along with the features that make it unique. Each venture has its own problems and opportunities, and each must address distinct issues that are separate from other kinds of start-ups.



## What To Do

In keeping with General Patton's Advice, there are three other things you should do before you prepare your business plan.

First, you can save considerable time and produce a better business plan if you do a "venture feasibility analysis" before working on this guide.

Second, the financial produced for a good business plan are often the most difficult and time-consuming aspect of business planning for most entrepreneurs. You cannot delegate this part of "your" plan to others. You need to know the numbers. The best treatment of this topic is *Entrepreneurial Finance: Taking Control of Your Financial Decision Making*. This short book will introduce you to the key issues and questions about financing your venture.

Third, the actual development of your financials and their subsequent revision (as you develop your enterprise and revise your business plan) is handled best by the use of financial planning software. Find one that contains great finance, accounting, and entrepreneurial expertise, requires minimal training, and generates linked or integrated financial projections, including revenue statements, income statements, balance sheets, cash flow statements, key measures, and breakeven statements. If you are not computer inclined, we've included guidelines in this planning guide for you to produce manual calculations. However, you should recognize this approach has definite limitations in answering key questions about your likely cash requirements, about the timing of these cash needs, and about alternative financial strategies.

# Introduction

## How High Can You Jump?

You need to feel comfortable with why you must go through the exercise of writing a business plan. If you don't understand the reasons and benefits it will bring, in all likelihood you will do a less than adequate job. You will defeat your purpose before you ever get started. To be sure, writing a business plan is one of those hoops you must jump through. The players (investors, customers, suppliers, etc.) are simply not going to let you play until you are good enough to be on the team. Besides, if you can't put your plan on paper, then you haven't really thought it out. You may think this is an exercise in futility, especially since times and events change, and your company will certainly change with them. And that is exactly why you need to have a business plan.

Your plan must reflect your ultimate goal. Be honest up front. What will be the extent of your involvement? Do you want to own and/or manage this startup? If so, be prepared to show why you are capable and how you will compensate in the areas that you have no expertise. Perhaps your real aim is to sell your idea or license your product to an existing company in exchange for your royalties. Your plan must be written according to what *YOU* want. You must then tailor it to a specific use.

## The Uses of a Business Plan

Your plan can accomplish many things for you and your proposed venture, but it is not prudent to try to make it be all things to all people. One plan will simply not suffice for all possible uses. Indeed, most seasoned entrepreneurs will write (or revise) a business plan at each stage of the company's development. The most successful of these will then write several plans, each adapted for specific players.

Sounds like a pain, doesn't it? Actually it is not that difficult or time consuming. Once you have done your homework and decided to go ahead, it doesn't take much more effort to expand and/or adapt a business plan. The basic format of a plan is essentially the same for all uses. The trick is to beef up the sections that are of most interest to your target audience: investors, the management team, suppliers, customers, etc.

## A Development Tool

A plan of this nature is written for yourself, your partner(s) if you have any, and any other principals concerned with the startup. You will want to concentrate on the section dealing with overall schedule and milestones (Module 12). This plan functions as a detailed “to do” list. It helps you set realistic deadlines and delegate assignments. It keeps you on track in the early stages.

At this point, the other sections of your plan are sketchy, just some initial thoughts on how you think (or would like) the whole venture to come together. It serves as a blueprint for filling in the details in the other sections and substantiating “how” and “why” your idea will be successful. If your objective is to develop your idea along just far enough to prove it feasible, then sell it and go on to something else, then tailor your plan to that objective.

## A Management and Planning Guide

If you’re in for the long haul, this is the plan you want to develop. This use is at the heart of all good plans. Since it is the most comprehensive, most of the other uses of a business plan are adapted from this one.

This type of plan becomes an operating bible for the *management* of your company. Since you can’t predict the future, the best you can do is monitor and measure actual performance against expected performance. When events deviate from your plan you can quickly take corrective action.

This use forces you to identify opportunities and threats, strengths and weaknesses. It will prompt you and your associates to agree upon goals, strategies, and objectives in a systematic and realistic manner. You will want to concentrate on the sections dealing with Organization and Personnel (Modules 9, 10 and 11).

## A Mission Statement

No matter what stage of development your idea may be in, you are going to have to let certain key people know what you are all about. This type of plan is used to team up with suppliers, inform consultants and other professionals that may be needed (lawyers, accountants, etc.), and to pre-commit customers. You will not always be granted a forum to explain in person what they need to know to act on your idea. You should always be prepared to give them a plan to review – one that is tailored to their interest or expertise.

An overview of each section may be appropriate, but you may not want to share detailed or confidential information with certain parties. For suppliers, it may be appropriate to beef up the section on the Product and the Technological or Manufacturing Operations. It may be that if suppliers knew these things, they could pose a competitive threat. Use your judgement, giving each player a plan that goes into detail in sections that are applicable to them, while giving only a brief sketch of the other sections.

## A Sales Document

The vast majority of business plans are written exclusively for this use. Most end up as nothing more than shallow sales material. Sophisticated investors recognize these right away and pitch them in the circular file. No one can deny that a good business plan is one that raises money as long as all sections are well researched and documented and the financial projections and assumptions can be substantiated.

If you're going to romance money, you have to have appeal. The problem is, what excites one person doesn't necessarily excite another. Again, you will have to tailor this kind of plan to the type of financing you are seeking (or think you stand the best chance of getting). It is not unusual for some entrepreneurs to cover all the bases by writing several plans, each designed to address the interests and concerns of different financial groups.

**Bankers**, for instance, are usually more conservative than venture capitalists and private investors. They will be primarily interested in the company's fixed assets (building, equipment, etc.) and the collateral you can offer. They often don't care how innovative your idea is, what industry you are in, or how many trillions of dollars you are going to make. They just want to know if their loan can be paid back at the going interest rate.

**Venture capitalists** (and other sophisticated independent investment groups, by any other name) are more willing to roll the dice. They may want a chunk of your company and its profits for their risk. They like innovative products and services that address a growth or "glamour" industry. They want to earn at least a 45 percent compounded annual Return on Investment (ROI one of those catchy phrases people like to see in a business plan). **In other words, they want to get back six times their money in 3-5 years.** The sections to beef up for this use are, in order of importance: the Executive Summary, the Financial Data and Projections (particularly a current balance sheet and terms of the deal); the Management Team, and the Product or Service.

**Private investors are the most common financiers of startups.** They are usually family, friends, and other well wishers who want you out of their hair, but have a sincere desire to see you succeed. These people can't be taken for granted. Many of today's most successful companies were started in garages just this way. They deserve to see a plan, especially if you want them to take you seriously. After all, business is business.

Limited partnerships and other types of deals can also be structured through more sophisticated private investors. If you are targeting local investors to fund your startup, they look for who else is in the deal. They like to see a big name they know (or have heard of) and respect. You will want to beef up the section on Management, particularly the Board of Directors.

Very simply, a plan tells the reader where you have been, where you are now, and where you hope to go. Don't worry about raising money at that point. Money will be attracted to a good business idea which can be feasibly implemented. There are plenty of avenues open. Your first objective is to write a good plan that can be tailored to a specific use. Just don't lose sight of the fact that you are writing the plan as much for yourself as anyone.

## Who should Write the Plan?

You should write the business plan.

So, you may not be a literary genius. That's not the point. It is the process, not the writing, that counts. If someone else writes the plan, then it is *their* plan, not *yours*. The people interested in this startup want to see that you know and understand the functional areas of a company. They want to be sure you have the big picture and will pay attention to the details as well. If you cannot write it for lack of time or circumstance, you should maintain as much control and direction in the writing as possible.

"...remember, people buy people. Most products and services cannot be patented. Contrary to popular belief, you can build a better mousetrap but the world *will not* beat a path to your door. A plan is only as good as the people who implement it. Investors put more stock in the management than they do the product. That is why there is generally more money chasing well developed ideas than there are ideas chasing money..." These statements are all cliches often heard in the venture capital world. They are reinforced here because they are all true.

Investors know that if your business plan is not done right, you probably will never do anything of substance beyond it. This guide gives you what you need to demonstrate the credibility and competence of a workable plan. The confidence and commitment to get through it can only come from you. In this sense, the guide serves as architect and engineer. It will help you build a well designed plan that is structurally sound. You're the builder. What you put into it – the thought, research facts and figures, and other information – are bricks and mortar.

## Authenticity and Style

You may have noticed that this guide takes an unusually informal and personal approach. It is unique because it doesn't look or talk like a textbook. Its purpose is to communicate with you, not impress you with complicated theories and formulas.

Your business plan is uniquely yours. Use your own style. It should be a personal expression (an art form) as much as a professional document (scientifically and structurally sound). Feel free to express yourself in the first person (we, I, ours). In your first draft do not be overly concerned with spelling, punctuation and grammar. Let it flow naturally from your heart and mind, utilizing your research notes and experience.

Someone who writes well can help you put the finishing touches on it later. For an excellent guide on writing, check out *Elements of Style*, Strunk and White. This paperback should be available through your local library.

You will want your work to transmit enthusiasm, but try to avoid using flowery language and superlatives. Phrases like, “Fantastic sales” and “Tremendous profits” send up red flags and will lessen the impact of truly significant messages. There are certain words and phrases that investors and other professionals look for (like ROI). These are noted in each section in bold print and a glossary is included to help you understand the lingo. Incorporate them into your text in your own way. Above all, use clear layman’s language. Remember, some of the people who will be reading your plan will know nothing about your product, the technological or manufacturing process involved, or even the industry it addresses.

## Writing One That Works

Writing a business plan is tough work. A typical timeframe for writing a plan would exceed 300 hours over one to six months, depending on how much time can be devoted to the research and writing. The plan must be comprehensive, but concise. Only in exceptional cases should the exceed fifty pages (typewritten/double spaced), and twenty-five pages would be a good target. A too sketchy plan will be viewed as evidence the entrepreneur has not done his or her homework – sure grounds for rejection. If it is too long and brought in on a wheelbarrow, it won’t be read, which is the same as rejection. You have to write a plan that people will read and give them confidence in you and your idea.

## The Executive Summary

The most important section of your business plan is the executive summary. After months of work, if you haven’t sold the business opportunity in the first five minutes of reading, you have lost your reader. If not excited in the first two pages, the reader certainly won’t hunt through the chapters for what makes your venture truly unique and worthy of support. The executive summary should highlight the most significant points of your business plan and entice the reader to read on. In six paragraphs, the following needs to be described:

1. Your product and why it is unique and profitable,
2. What business you are in and the milestones reached with financial results,
3. What is the market for your product, what size it will be, and your share of the market,
4. The management team and their expertise,
5. What are the financial terms and profit potential, and
6. What your unique strengths and advantages are that will contribute to the success of this venture.

It is best to write the executive summary after you have written the rest of the business plan, because that exercise will also help you sort out the important information.

## **Financial Information**

The next most important portion of the business plan is your financial projections – after all you are in business for profits. The financial section should clearly indicate the amount of funds needed and what those funds would be used for. This section is highly scrutinized by the people with money. If the company is already in operation, you will need to provide a profit and loss statement and a balance sheet. An existing or startup company needs to provide projections for these statements for a three to five year period. These statements should indicate the upside, downside, and expected financial results.

It is also to your advantage to provide a breakeven analysis. The five-year requirements may seem impossible to meet with any accuracy and often is. One solution is to generate three scenarios for the five-year period. Use conservative projections based on a weak market performance, aggressive projections based on robust demand, and the most likely results of your efforts. It is also recommended that you explain key assumptions and show how the numbers were derived. Prepare to justify your figures.

## **The Management Team**

After the reader has summed up the unique business opportunity and the financial projections, the final determination is whether the entrepreneur can really do the job. The credibility of the business plan will be under siege, and if it survives the analysis, the focus will be on the entrepreneur and if they can meet company objectives and make money. The management section of the business plan must outline experience, expertise, and past accomplishments, and the tone of the business plan must be honest and evoke trust. The entrepreneur has to identify the weaknesses and negatives and address them. The reader wants to reduce his risk, and he wants to know if you're going to do that.

If the reader is still with you, they will finish reading the business plan with a critical eye. If you have managed, however, to romance your reader, they may be looking for reasons why they should support your business opportunity. If interested, they are selling themselves and justifying their decision. Write the rest of the chapters well, and give them reasons why they should be involved.

## **What to Avoid**

Most bankers, investors, venture capitalists, and consultants have too much to do in too little time, so entrepreneurs need to avoid the turnoffs often associated with business plans. We have already talked about being too long or too short. The business plan needs to be “crisp,” indicating clearly and concisely what this venture is all about. Readers expect a professional business plan, neatly typed with no spelling errors, but a too polished business plan with a fancy cover raises eyebrows and red flags. The

emphasis should be on substance, not on form and style. Other turnoffs include a poor marketing plan, failing to identify details about competitors, not identifying key employees, weaknesses in the management team, massive advertising budgets, high salaries, and unrealistic sales forecasts.

Remember, you want to push the hot button of your reader, not raise flags and eyebrows. Do your homework, evaluate it critically, and check it again. Whether the reader is you, your partners, your Uncle Harry, the banker, or a venture capitalist, your business plan is written for a good purpose.

## **In Summary**

A business plan is a necessary exercise, often required by investors, suppliers and customers. Most importantly, it is a vital planning tool for the entrepreneur.

- A business plan must reflect the entrepreneurs ultimate goal for the venture.
- A business plan may be tailored for several uses:
  - As a development tool for the founders
  - As a planning and evaluation guide for the managers and others
- Expect to spend a minimum of 300 hours developing the business plan. Planning is a vital component to properly and strategically position a new venture. It is you road map to business success.
- By the way, some people will tell you that researching and writing a business plan that results in the successful startup of a company is equivalent to an MBA degree any day. While this statement is certainly debatable, no one can argue that the experience is an educational one. An exciting one at that. Good luck and many happy revenues



# **The Modular Approach**

## **A Word on Format**

This guide is written in modular format, where each module represents a “chapter” or “section” of a good business plan. Each module is designed to stand alone. It assumes that people collect, organize, and absorb information in blocks, rather than in large doses. While keeping the “big picture” in perspective, this guide attempts to make writing the business plan a series of mini lessons. Work one module at a time. There is no reason to frustrate yourself with too much material or information at once.

Some modules may not apply to you. If yours is a service business, the module on product manufacturing will be of little interest. Pick and choose what you need. Most of the modules are part of a well designed business plan which must be addressed by all startup companies in any industry. Depending on the scope of the venture, it may be appropriate to combine and condense several modules into one section.

Each module breaks down the essential components of a business plan. They are presented in logical sequence, in workbook fashion. Each module will tell you:

## **Suggested Length**

This is purely a judgement call. Use as much space as you need, but be concise and to the point. Business plans less than ten pages long have been known to raise millions, but rarely. Again, the length will be largely determined by the intended use of the plan. Avoid the “wheel barrow” approach. These plans are so long, you need two people to lift them. Too much information is as damaging as too little information. It only confuses and overwhelms the reader. All totaled, you plan should not exceed 50 pages (not including appendices), typewritten, double spaced.

## **Objective of the Module**

This is why the entire module is written.

## Questions to be Answered

This part of each module is the most important aspect of this guide. The questions are thought provokers. They are not all inclusive. They *do not* cover *every* issue you might be concerned with, but they cover at least the basics and will lead you to uncover and address other issues. The questions not only help you discover issues you should include in your business plan, they also prepare you for the verbal firing line when you go before prospective investors. These are the questions that *will* be asked of you – you can count on it! No one expects you to have all the answers. They do expect you to know most of the questions, and want to know how you are thinking about attacking these issues. (Some of the same issues are covered in two or more modules. Therefore, you will find some redundancy. In order to be thorough and allow each module to stand alone, this couldn't be avoided.)

## Subheadings to Include

This simply highlights the most important aspects of each module of your business plan. Subheadings help make your plan more readable. The subheadings we recommend are standard issues of each topic. They are only suggestions. Include whatever subheadings you think appropriate for your situation.

## Description of What to Accomplish Under Each Subheading

This is *how* each issue will be addressed. It is a guide to refer to as you outline and write each module. Again, it is not all-inclusive. Your gut feelings and unique style will be your best guide as you develop and write each module.

## A List of Common Mistakes to Avoid

This will help you ensure the integrity of each module of your plan. Most plans fail because of the same pitfalls and weaknesses. These lists try to identify most of them for you. You may want to glance over them *before* you write each module. After you write each module, study this list closely and recheck your work. It is also wise to have an objective friend or advisor look over the list and then read what you have written. They will be more apt to pick up on common mistakes.

The order of sequence in which each module appears was carefully chosen. Research indicates this is the preferred order of review among investors, bankers, and other professionals. It is not carved in stone. The order of sequence for the contents of your plan is entirely up to you. A reader who has a particular interest in a certain module can find it in the table of contents and go right to it.

There is one trap to avoid as you begin. **The order of sequence in which your plan's contents will appear is not necessarily the order in which you will research and**

**write each module.** For example, the Executive Summary appears first, but it is usually the last module to be written. The first thing you need is market information. Second, can your idea be put into a *profitable* plan of action? Therefore, the market research and financial projections are usually most important. All other modules are developed from these.

### Suggestions on How to Proceed

1. Flip through this entire guide to acquaint yourself with the modules. Decide if you should combine one or more of the modules into one section (see Module 2 – Table of Contents).
2. Decide where you would like (or should) begin. Complete one module at a time. It is suggested that you start with Module 3 or 6.
3. Make sure you understand the objective of each module. Keep the objective foremost in your mind as you write that module of your plan.
4. Read through each module carefully, noting areas where you will have to do some additional research before you are able to answer the questions. If a question does not apply to your situation you should cross it out. This will help you keep a positive attitude by making your task appear less tedious.
5. Pick up your pencil and go to work! You should not expect to complete each module on your first attempt, but do as much as you can the first time through.
6. Continue to work on the questions not yet answered until you have completed the module. Do not feel constrained by the space allowed for each question. If you need additional space either write in the margins or on a separate sheet of paper.
7. Decide on the subheadings you want to include in each module. Using the “description of what to accomplish” as a guide, outline each subheading according to your research and experience as reflected by your answers to the questions.
8. Write each module of the business plan in your own style according to the outlines provided.
9. Critique your work for each module using the list of “Common Mistakes to Avoid.”

10. Have your plan proofread by a person well versed in English grammar. Have it reviewed by your accountant and other professional advisors. Finally, have it bound in an attractive binder (see “Packaging Your Business Plan” under the “Finishing Touches” section)

# Module 1 – The Executive Summary

**Suggested Length**            1-3 pages

**Objective**                      To get the reader to keep on reading; to highlight the most significant points of each module.

## **Pertinent Questions**

1.      What type of venture is this (Check and describe)

- ☐ Merchandising
- ☐ Manufacturing/processing
- ☐ Distribution
- ☐ Service
- ☐ Other

2.      What products/services will it offer?

Why are they unique?

Do they solve a significant problem?

Do they address a major opportunity?

3.      What is the business status? (Check and describe)

- ☐ Startup
- ☐ Takeover
- ☐ Expansion
- ☐ Other

4. What stage is this venture in? (Check and describe)
- ☐ Research and development
  - ☐ Prototype
  - ☐ Operational
5. How long has the business been operating? (or been in development)
- \_\_\_\_\_ months      \_\_\_\_\_ years
6. What will be the form of organization? (Check and describe)
- ☐ Proprietorship
  - ☐ Partnership (type)
  - ☐ Corporation (type)
7. Where will the business be located?
- What is advantageous about this location?
8. Who and what is the target market?
9. What percent of the available market will you obtain?
- What is your strategy for entering the market?
10. Who is the competition?
- What are their strengths & weaknesses?
- What is their market share?

11. Who is going to manage the business?

What qualifications are needed to manage this business?

What is the experience, education, and background of the principals?

12. What are the timeframes for accomplishing the milestones and goals?

13. How much money is needed to make this venture successful?

How much money is needed for product improvement?

How much money is needed for marketing?

How much money is needed for operations?

14. What kind of financing are you looking at? (Check and describe)

- ☐ Debt
- ☐ Equity

15. What are you offering in return? (Check and describe)

- ☐ Ownership (how much?)
- ☐ Share of profits (projected earnings over 3-5 years)
- ☐ Other

16. What is the payback period?
17. How much money has been invested to date?
18. What is your interest (financial and otherwise) and long-term objective?
19. What are the strengths of the business? (What will make it successful)? (Check and describe.)
  - ☐ Management
  - ☐ Skilled/experienced personnel
  - ☐ Unique product/service
  - ☐ Constant source of supply
  - ☐ Low production/overhead
  - ☐ High margin
  - ☐ Good service
  - ☐ Emphasis on quality
20. What are the limitations on the business? (Check and describe)
  - ☐ Capital
  - ☐ Management resources
  - ☐ Personnel
  - ☐ Other
21. What are the venture's long range growth and expansion objectives?

### **Subheadings to Include**

The Executive Summary is one complete Module. A Fact Summary Sheet at the back of the section is recommended.



## **What to Accomplish**

The entire summary should be clear and to the point. Use short, choppy phrases. The language should be simple and demonstrate clarity of management objectives. Above all, the summary should *show opportunity*.

The following a suggested sequence of presentation:

### **Concept**

The opening statement should grab attention. State something about being the first to introduce this product or the customer demands being generated from your initial market research. Describe the nature of the business; i.e., type, location, business form, length, and state of operation. Describe current milestones reached and their financial results; i.e., reaching X amount in sales, evaluation and testing completed, prototype built. State what industry your product addresses.

### **Product/Service**

Describe your product. Discuss specialization, significant or unique features. Discuss where you are, or would like to be located. State why this location will be advantageous. If the product is to be sold or distributed through other outlets, discuss how this will be done and their locations. Describe and precommitted sales or contractual relationships you have with manufacturers and/or distributors for your product.

### **Market**

Describe the market for your product, your current or projected share, and overall potential. Discuss the competition and what advantages you have over them. Discuss your plans for introducing your product and your strategy for gaining market acceptance and loyalty. Mention any letters of intent you have with prospective customers.

### **Manufacturing/Operations**

Discuss the process involved in producing your product and getting it into the marketplace. Highlight areas of specialization and technology that you may have pioneered in the production of the product. If you plan to subcontract or license Manufacturing/Operations, describe the arrangement and why it is advantageous.

### **Management**

Discuss the people involved in the venture, their management expertise and experience. Highlight their distinctive competence. Discuss support personnel that will be needed as the company grows. Show that the people involved are qualified and committed.

**Funding Request and Times of Investment**

State how much money has been invested to date in the venture. State the additional funds needed and their use. Discuss what you are offering in return for the money. Include the payback period and potential return on investment. State what the earning projections are for the next 3-5 years. State any tax benefits that will result from investment.

**Milestones and Timeframes**

State what must be done and expected completion date to move venture along. Describe the phases and timeframes with which the business will be concerned. Summarize the unique advantages and strengths that will contribute to the success of the venture.

**Common Mistakes to Avoid**

- Too wordy; not to the point
- Too long; trying to be all inclusive
- Does not identify a special or unique opportunity
- Does not clearly demonstrate what the venture is all about
- Does not identify what management hopes to accomplish and how they plan to do about it.
- Terms of the deal are not clear
- Failure to insure all the proper legal steps have been taken (see Fact Sheet)

The Fact Sheet stands alone and appears at the back of the Executive Summary Module as a separate page. It enables the reader to scan the vital information that makes up the company. Fill in the following fact sheet and have it typed on a separate page.

## FACT SHEET

**Name of Company:**

**Location:** (address, city, county, state, zip, phone)

**Zoning Classification:** (obtain form city ordinance)

**Type of Business and Industry:** (example – manufacturing, agriculture)

**Business Form:** (proprietorship, partnership [type], corporation [type])

**Product or Service Line:** (example – electronics, household)

**Patent, Trademark or Service mark:** (type, number, date issued)

**Length of time in business:** (or in development)

**Number of Founders/partners/employees:**

**Current and/or projected share of market:** (example – 10% of GF market 1985, 20% 1986)

**Invested to Date:** (estimate equipment, supplies, time)

**Net Worth:**

**Additional Financing Needed:** (estimate total dollar amount)

**Minimum Investment:** (dollar amount for stock, partnership unit, etc.)

**Terms and Payback Period:** (example – equity position, limited partnership shares, 3-year buyback, 40% ROI)

**Total Valuation:** (after placement)

**Legal Counsel:**

**Financial Counsel:**

**Management Counsel:**

Description of any related party transactions, contracts or relationships which the company may be involved in.

## **Module 2 – The Table of Contents**

**Suggested Length**            1-2 pages

**Objective**                      To allow the reader to quickly access particular sections of interest.

### **Pertinent Questions**

1.     What are the pertinent sections (topics) that you should include in your plan? What are the appropriate subheadings of each?
2.     In what order will you present the contents?
3.     What pictures, graphs, legal documents, etc. should you include as supporting material?
4.     Given the nature of the business and purpose for which you are writing the plan, how long (number of pages) will this plan be?

### **Subheadings to Include**

The following is a list of topics or issues you might include. Depending on the importance of each issue to your startup, any one can stand alone as a separate section or be combined with another issue. Also listed are possible subheadings that may be organized under each main topic.

The Company  
    Background  
    Current Status  
    Future Plans

The Industry  
    Chief Characteristics  
    The Participants  
    Analyst Summaries  
    Trends

Product and Related Services  
    Product/Service Description  
    Facilities Description  
    Proprietary Features  
    Future Development Plans  
    Product Liability

**Technology: Research and Development**

- Concept Development
- Research, Testing and Evaluation
- Milestones and Breakthroughs
- Current Status and Continuing R&D

**Market Analysis**

- Target market and Characteristics
- Analyst Summaries
- Market Share, Trends, and Growth Potential
- Sales, Distribution, and Profits by Product/Service

**Competitive Analysis**

- Competitors Profile
- Product/Service Comparison
- Market Niche and Share
- Comparison of Strengths and Weaknesses

**Marketing Strategy**

- Penetration Goals
- Pricing and Packaging
- Sales and Distribution
- Service and Warranty Policies
- Advertising, Public Relations, and Promotions

**Manufacturing Process and Operations**

- Location
- Facilities and Equipment
- Manufacturing Process & Operations
- Labor Considerations
- Environmental and Economic Impact

**Management and Ownership**

- Key People and Experience
- Board of Directors
- Ownership Distribution and Incentives
- Professional Support Services

**Administration, Organization and Personnel**

- Administrative Procedures and Controls
- Staffing and Training
- Organizational Chart
- Management Control Systems

**Milestones, Schedule, and Strategic Planning**

- Major Milestones (What/Why)

Schedule (When/Who)  
Strategic Planning (How/Where)

Critical Risks and Problems  
Summary of Major Problems Overcome  
Inevitable Risks and Problems  
Potential Risks and Problems  
Worst Case Scenarios

Financial Data and Projections  
Funding Request/Terms of Investment  
Current Financial Statements  
Financial Projections  
Assumptions

Appendices

The following is a condensed version of the Table of Contents utilizing all the modules.

**Executive Summary**

- I. Business Summary
  - A. The Company and the Industry
  - B. Management and Ownership
  - C. Administration, Organization and Personnel
- II. The Product and Services
  - A. The Technology: Research and Development
  - B. Manufacturing and Operations
- III. The Market
  - A. Market Analysis
  - B. Competitive Analysis
  - C. Marketing Strategy
- IV. Schedule and Risks
- V. Financial Data
- VI. Appendices

**What to Accomplish**

All major sections should be listed in bold print in the order in which they appear in the plan. Designate each major section with a roman numeral along the left-hand margin. All major sections and subheadings should have a corresponding page number listed along the right-hand margin. Example:

<b>I.</b>	<b>The Company .....</b>	<b>1</b>
	Background .....	2

**Common Mistakes to Avoid**

- Prominent sections of interest are not discernible
- Page numbers are not clearly marked for each section
- Sequence of topic presentation follows a confusing or illogical pattern
- Listing certain subheadings under unrelated major sections

## **Module 3 – The Company and the Industry**

**Suggested Length**      1-3 pages

**Objective**      To describe the startup and background of your company. To provide a brief sketch of your industry and how your venture addresses it.

*Note:* The first part of this Module is primarily for ventures that have some operating history. If your company has a significant history, you may want to have this section stand alone as its own chapter.

### **Pertinent Questions:**

1.      When and where was the company started?

Date and state of incorporation or partnership?

2.      What is the form of organization?

Will this be changing? When?

3.      Where is the business located?

Will you, or have you changed locations?

Why?



4. How long have you been in business?

5. Did you obtain a patent or trademark for the company's name and/or logo?

Do you have one pending?

6. Why did you go into business?

7. How was this business venture developed?

How long did it take?

What problems were encountered?

How were they overcome?

What were the key milestones?

How and when were they accomplished?

8. Who are the founders and other key people involved?

What do they bring to the business?

9. How did you identify your market?

What success have you had in penetrating it?

10. How have you dealt with the competition?

11. What are your overall strengths and weaknesses?

12. How much money have you invested?

What has been your source of funding?

How has the money been used?

Is the investment secured? How?

13. What are your future goals and strategy for achieving them?

14. How is your company affected by major economic, social, technological, environmental or regulatory trends?

15. What is your sales and service record?

**16.** What industry are you in?

**17.** What is the current state of the industry?

How big is it?

Total sales? Profits? Margins?

**18.** Who are the major industry participants (competitors, suppliers, major customers, distributors, etc.)?

What is their performance? Market share?

What advantages do you have over them?

How will you capture markets others are competing for?

**19.** What are the industry's chief characteristics?

Where is it expected to be in 5 years? 10 years?

Will your share increase or decrease with these changes?

Who else may get into the industry?

## **Subheadings to Include**

### **The Company**

- Background
- Current Status
- Future Plans

### **The Industry**

- Chief Characteristics
- The Participants
- Analyst Summaries
- Trends

## **What to Accomplish**

Make the reader a part of your dreams. Describe how your work and decisions got the company where it is. Show how past performance will pave the way to future success. Demonstrate how you will become an important addition to the industry, that you understand the industry, and where it is headed.

The following is a suggested sequence of presentation:

## **THE COMPANY**

### **Background**

Describe the startup and history of your company from the time of inception. State where and when it was organized. State what form of business it is and where it is located. Discuss significant milestones, such as obtaining a patent, building a prototype or signing a major contract. Discuss the people involved and the roles they have played. Mention any trademarks on the company's name or logo.

### **Current Status**

Discuss where you are now. Talk about the reputation you have built, your strengths and what limitations are being experienced. Describe how your product is performing in the marketplace. State the amount of money that has been invested to date, by whom, and how it has been used. Give an overview of your sales and services record, if any. Discuss the kind and amount of funding the business needs to begin operations or improve operations.

### **Future Plans**

Discuss your goals for the next 3-5 years. Describe how you plan to achieve them and what resources will be needed. Allude to improvements and expansion of your existing product line, as well as your hopes for increasing your market share and sales.

## **THE INDUSTRY**

### **Chief Characteristics**

Describe the industry your company is in. Discuss the industry's profile, including: size, geographical dispersion, market, history summation, current status, and its total sales and profits for each of the last three years.

### **The Participants**

Discuss the competition and other players (suppliers, wholesalers, distributors, etc.) within your industry. Summarize each participant along a spectrum of weakest to strongest. Briefly discuss their product/service lines and market niche. Discuss more thoroughly the participants with whom you will have direct involvement or competition.

### **Analyst Summaries**

Provide a series of quotes and statements that summarize significant facts, figures, and trends about the industry from various reputable sources. Make sure you properly credit the source and provide the date of publication. Use quotes and statements from diverse sources; i.e., industry magazines and newspaper articles. Quotes from personal interviews can also have a powerful impact. These statements should clarify where the industry is headed and the various markets to be served within the industry.

### **Industry Trends**

Discuss where your industry is headed. State whether it is declining, improving, or holding steady and what opportunities there may be. Discuss where it might be in 5-10 years and your relative position within it. Discuss the future of the industry in terms of market need and/or acceptance and profit potential. Describe significant events or changes within the industry that will affect your business positively or negatively.

## **Common Mistakes to Avoid**

- Too much detail and personal opinion about the company, not enough on significant milestones and potential
- Not demonstrating a well-rounded knowledge of major industry players and their potential influence on the company
- Appears to be a "fly-by-night" operation
- Lack of direction and commitment evident
- Poor or inadequate knowledge of the industry and trends.

# **Module 4 – Product and Related Services**

**Suggested Length**            1-3 pages

**Objective**                      To describe the product and related services, special features, benefits, and future development plans.

## **Pertinent Questions**

1.      What is the purpose of the product/service?

Do they solve a problem or address an opportunity?

Are they luxury items or need items?

2.      How does the product achieve this purpose?

3.      What are its unique features? (cost, design, quality, capabilities, etc.)

4.      What is its technological life?

How does it compare with state of the art?

What is its susceptibility to obsolescence?

To change in style or fashion?

5. What stage of development is the product in? (Check and describe)

- ☐ Idea
- ☐ Model
- ☐ Working prototype
- ☐ Small production runs
- ☐ Full manufacturing/production (at what level?)
- ☐ Engineering prototype
- ☐ Production prototype

6. How will the product be produced?

Is it capital intensive?

Is it labor intensive?

Is it material intensive?

7. Will all or some of the production be subcontracted?

8. Is this an and-use item or a component of another product?

Does your company's survival depend on someone else?

9. Can your product be protected by patent, copyright, trademark or servicemark? What protection will be provided?

10. Do you interface with important, noncompetitive equipment whose manufacturer might be reluctant to support your product due to warranty, liability or image considerations?
11. What new products (spinoffs) do you plan to develop to meet changing market needs, in this industry or others?
12. What are the regulatory or approval requirements from government agencies, or other industry participants?
13. Is the product dependent on any natural, industry or market life cycles? What cycle?  
(Check and describe)
  - ☐ Introduction
  - ☐ Growth
  - ☐ Maturity
14. What are the liabilities this product may pose?

What are the insurance requirements?

15. What kind of engineering studies, testing and evaluation has the product undergone?
16. If more than one product is involved, how will the manufacture and/or promotion of one affect the other?
17. How does this product compare to similar products of competitors?



18. What are any special manufacturing or technological considerations?

What are the maintenance/updating requirements?

19. If equipment is involved, what is its reliability factor?

What is its downtime?

20. What are the related services you will provide?

How will they enhance and increase the profitability of the venture?

### **Subheadings to Include**

Description of product/service  
Description of the facilities  
Proprietary features  
Future development plans  
Product liability

### **What to Accomplish**

In layman's language, explain your product and services, what they do (that's special or different), and who they serve. Briefly highlight future plans for improvements or for introducing new products/services.

The following is a suggested sequence of presentation:

#### **Product/Service Description**

Describe exactly what your product/service is and for what it was designed. Discuss how it works, special features, capabilities, and resulting benefits (economic, social, environmental, leisure, etc.). If more than one service or product line is involved, discuss each one and how they function together and/or affect each other. State what stage of development the product/service is in.

### **Facilities Description**

If the facilities are a focus and part of the product or service (such as a hotel would be), describe them in this section. If the facilities are an adjunct, rather than interrelated with the product or service (such as a machine manufacturing and assembly plant), it would be best to describe them along with the operations description in Module 9.

Describe the facilities and why they are unique or better; i.e., none other like it, more attractive, better proximity to customer base, offers more, etc. Discuss location and why it is advantageous. State what percentage of the facilities are used for revenue producing services, operations, storage, etc.

### **Proprietary Features**

Discuss any patents, copyrights, trademarks, servicemarks, or other legally binding agreements that protect your product or service. State if a patent is pending. Overall, discuss how you intend to protect the integrity, confidentiality and competitive nature of your product and services. Briefly mention any regulatory or approval requirements your product or service must meet. State who has jurisdiction and how you will satisfy these requirements.

### **Future Development Plans**

Describe the nature and application of future development plans. Discuss whether these plans are improvements, and extension of the current product/service line or plans for other products/services. State whether these plans will address your current market or other markets. Discuss the timeframes for these plans. Justify why these plans are important by showing increased or newly generated profits.

### **Product Liability**

Discuss the liability and insurance considerations that are inherent in manufacturing and/or marketing the product. Describe how you plan to limit the company's liability. Provide an estimate of the percent cost of the product that will be applied towards liability coverage.

## **Common Mistakes to Avoid**

- The product/service description is too technical, too broad, or too ambiguous
- The section does not identify new, unique, or better capabilities, features or benefits
- The homework is not done on protection availability or, not showing how to protect product/service from liability or competition
- The section identifies too much red tape and uncertainties from regulatory agencies

- Weak future development plans for improvements, expansion, staying ahead of market needs and competition
- Failure to consider the reliability, maintenance, and/or updating factors to keep “downtime” to a minimum
- Failure to include a third party evaluation of your product/service

# **Module 5 – Technology: Research & Development**

**Suggested Length**            1-2 pages

**Objective**                      To provide an overview of the unique technology your product utilizes. To outline the Research and Development phase and significant accomplishments.

## **Pertinent Questions**

1.      When did you begin developing the product?
  
2.      Where and under what conditions was research and development conducted?  
  
         Under what supervision?
  
3.      How many man hours are involved?
  
4.      What instrumentation, chemicals, components, etc., are utilized in the product?
  
5.      What are the costs (to date) to develop the product?
  
6.      How much of the product is developed? (Check and describe)
  - ☐ Electronics
  - ☐ Mechanics
  - ☐ Casing
  - ☐ Packaging/aesthetics
  - ☐ Full working prototype (how many?)

7. Has the product undergone stress tests, safety tests and other reliability tests?
8. Have you applied for, or received, patent protection?
9. What are the regulatory requirements to manufacture, license, or market the product?
10. Do you plan to manufacture this product yourself, or license it to an existing manufacturer?
11. How does the technology compare to similar products?

Is it state of the art?

More advanced than competitors?

12. When will research and development be completed?

When will the product be ready for mass production?

When will the product be ready to be marketed and distributed?

What R & D still needs to be done?

13. What contacts have you made concerning the research and development of this product?

Results?

- ☐ Potential customers
- ☐ Government agencies
- ☐ Potential manufacturers, distributors
- ☐ Potential investors

14. Who owns the concept, drawings, materials, marketing rights, etc.

Give a breakdown of each and percent of ownership.

15. What have you learned through R & D?

- ☐ Technology transfer to other applications
- ☐ Spinoff products

16. Have you tested the product in the marketplace? (Check and describe)

- ☐ Ease of use, adaptability
- ☐ User acceptance
- ☐ Instructions, training needed

17. What have been the primary accomplishments and break-throughs?

18. What have been the major risks, problems and setbacks?

**Subheadings to Include**

Concept Development  
Research, Testing and Evaluation  
Major Milestones and Breakthroughs  
Current Status and Continuing R & D

**What to Accomplish**

Describe how the idea came about. Discuss how you developed the product from the idea stage through to a viable business opportunity. Highlight what you learned in the process and what still needs to be done to move the product into the marketplace.

The following is a suggested sequence of presentation:

**Concept Development**

Describe how the product came about. Discuss how long it has been in development and the related cost factors. Describe the initial concept and how it has changed and improved through the development process. Discuss any new applications or opportunities that have resulted. State who owns what portion of the concept and/or product and give the percentages of each. Describe the technology employed in development.

**Research, Testing and Evaluation**

Describe all related research, testing, and evaluation activities. Mention any surveys, articles, or studies that may have been published as a result of these activities. Present your findings as factual conclusions and document them as supporting materials in your appendix. State what makes the product reliable. Discuss the results of your research in terms of production needs, cost factors, time requirements, documentation, maintenance, and updating requirements. Describe the facilities, conditions, instrumentation, and supervision with which the research was conducted.

**Major Milestones and Breakthroughs**

Discuss the significant milestones and accomplishments that were achieved during R&D. State when, and under what circumstances, the breakthroughs happened. Describe what impact they had or will have on the venture. Discuss how the technology or process is different or superior to similar products. Describe what risks and problems were overcome to reach these milestones.

**Current Status and Continuing R&D**

Discuss where the project stands now. Describe how much of the product has been developed and what still needs to be done to protect, manufacture, license, market, and/or distribute it. Discuss how much of this you will be involved in doing or who may take over the development of these things. State when R&D will be completed. Discuss what contacts you have made regarding the product and the results of the contacts.

### **Common Mistakes to Avoid**

- Superficial investigation or development; overlooking or not recognizing fundamental problems or flaws
- Inadequate testing; not fully evaluating potential short-comings or failures by not developing adequate test procedures and conditions
- Lack of certified test where applicable; trying to establish creditability of results with insufficient data and standards
- Inadequate safety considerations – shielding, isolation, grounding, types of material used, etc.
- Lack of attention to reliability factors; failure to define, test, and evaluate reliability considerations
- Lack of plan for future development and manufacturing; inadequate consideration of manufacturing requirements and materials; lack of drawings and specifications
- Over designing; failure to observe the KIS Principle (Keep It Simple)
- Comparing technology you are involved with now with the technology the competition has now, even though you won't have it on the market for a year or two (the competition's technology and advances will have changed by then)



## **Module 6 – Market Analysis**

**Suggested Length**      3-5 pages

**Objective**      To demonstrate that you understand the market, that you can penetrate it, and that you are in control of the critical success factors which will enable the company to reach its sales goals. Above all, to prove there is a demand for your product/service.

### **Pertinent Questions**

1.      Who or what is your target market? (Check and describe)
  - ☐ Individuals
  - ☐ Companies (small, medium, large)
  - ☐ Government agencies
  - ☐ Other
  
2.      What is the size of your target market?
  
3.      Can this market be segmented (by geography, by industries, etc.)? How?
  
4.      What is the profile of your targeted customers?
  - Age
  - Sex
  - Profession
  - Income
  - Geographic location
  - Other demographics
  
5.      What are the major applications of your product or service?

6. For each major application, what are the requirements by customers?

What are the requirements of regulatory agencies?

What are the current ways of filling these requirements?

What are the buying habits of the customers?

7. What will be the impact (economic or otherwise) on the customers who use your product or service?

How much will they save?

What is their return on investment (benefits)?

Will they have to change their way of doing things?

Will they have to purchase other goods and services to utilize yours?

Will they have to change their work habits?

Overall, how will you satisfy their needs or wants better?

8. What share of the market do you hope to capture?

9. What is the growth (historical and potential) of your market?

What are the market trends?

Is the market seasonal?

What factors will affect it (economic, government regulation, etc.)?

10. What are your market share objectives for the total available market?

What are your market share objectives for the service available market?

What are your market share objectives for the replacement market?

11. What is your rationale and cost of achieving different levels of penetration?

12. How will you maintain and increase your market share?

How will you satisfy current customer needs?

How will you attract new customers?

How will you offer something new, better or unique?

13. How will the segments and applications of your market change over the next 3-5 years?
14. Are your product/services bought by others to service their customers?

How does their industry look? What kind of business are they doing?

15. How will you distribute your product? (Check and describe)
- ☐ Direct
  - ☐ Dealer network
  - ☐ Wholesale
  - ☐ Retail
  - ☐ Manufacturers representatives
  - ☐ Other

Will it be distributed under your name or someone else's?

16. If transportation is involved, what are the implications of exporting? Importing? Taxes? Tariffs? Duties? Barriers? Foreign exchange and other concerns?
17. Have you received reactions from prospective customers?

What was their reaction?

Have they tested a realistic prototype?

18. Are your sales expectations in line with the manufacturing ability to produce it?

19. Are your pricing, service, and warranty policies attractive and competitive in the marketplace?
20. What does each product/service cost you to sell?

What does each product/service cost you to produce?

21. What have (will) your profits been (be) by product/service?
22. What are your current sales goals by product/service?

What are your current sales goals by number of units?

What is your sales volume in dollars?

### **Subheadings to Include**

Target market and Characteristics  
Analyst Summaries  
Market Share, Trends and Growth Potential  
Sales, Distribution and Profits by Product/Service  
Service and Warranty Policies

### **What to Accomplish**

Citing facts from your research and experience, show why and how your company will be successful. Most importantly, prove there is a market for your product/service and that your potential share and resulting profit projection are realistic.

The following is a suggested sequence of presentation:

#### **Target market and Characteristics**

Describe your target market, who or what, and give a profile. Discuss how your product/service meets the needs/wants of this market. Discuss the “buying” record and

habits of your customers. State pertinent facts concerning the size, age, location/area, profession, income and other demographic information about the market. Allude to any self-performed or professional research, studies, or surveys conducted. Include a list of these in a biography in the Appendices.

### **Analyst Summaries**

Provide a series of quotes and statements that summarize significant facts, figures, and trends about the *market* (and market potential) from various reputable sources. Make sure you properly credit the source and provide the date of publication. The objective is to pinpoint specific market opportunities that exist within the industry, and how your products/services capitalize on these opportunities. The quotes and statements should make it clear what problems and needs exist in your market. It should become evident to the reader that your products/services can solve these problems and/or meet these needs better than existing methods.

### **Market Share, Trends and Growth Potential**

State the percent share of the market you now have or hope to penetrate. Discuss the trends of the market, industry wide, regional, and local. State if the market is seasonal, the timeframes, and how you will adjust and compensate during the off-season. Discuss how the market may change over the next 3-5 years. Discuss the growth potential of the entire market and your increased share. State on what assumptions you base these growth patterns (i.e., technology, development, changing customer needs, costs, etc.). Discuss your rationale and the costs and risks associated with achieving higher levels of penetration.

### **Sales, Distribution and Profits by Product/Service**

Discuss your projected sales record by product/service. State what each product/service costs you to produce, distribute, and sell. Discuss how your product/service will be distributed and sold. Describe any unique features of your sales and distribution network. Discuss the implications of transportation, tariffs, duties, foreign exchange, and other government regulations.

## **Common Mistakes to Avoid**

- Believing that the size of the market (customer) base is equally distributed (for example, your total market may be North Dakota, but the majority of your sales may come from the eastern part of the state)
- Failure to prove that your target market represents the major portion of the demand for your product/service (80/20 rule – 20 percent of the customers may represent 80 percent of the demand)
- Unrealistic market share projections (believing you can capture 100 percent of the market)
- Failure to demonstrate a clear understanding of the product/service to be sold and to what market

- No accurate estimate of the profitability of each product/service
- Basing sales projections on a higher degree of output than you have adequately demonstrated can actually be met
- Pricing not in line with target market needs, desires, or ability to pay
- Not properly assessing the total market potential, or changes in the market caused by economic, social, or other trends
- Not supporting your target market assumptions in light of advances in technology, government regulations, population shifts, and economic forces (oil prices, interest rates, etc.)
- Addressing (attacking) your market universally; not segmenting your market into various components and developing profiles of each; defining your market too broadly
- Presenting your facts to make your market appear subservient to your company's needs instead of vice versa

# **Module 7 – Competitive Analysis**

**Suggested Length**      2-3 pages

**Objective**      To show that you are fully aware of the competitive forces at work in your marketplace. To explain your strengths over the competition, how you will counteract their advantages and overcome or compensate for your weaknesses.

## **Pertinent Questions**

1.      Who are your nearest and largest major competitors?

2.      Is their business steady, increasing or decreasing?

Why?

3.      How does your business compare to your competitors' (strengths and weaknesses of each)?

- ☐ In length of time in business?
- ☐ In sales volume (units and dollars)?
- ☐ In size and number of employees, suppliers, and support personnel?
- ☐ In number of customers? Share of market? Product niche?

4.      What are the similarities/dissimilarities between your business and your competitors' business?

5.      On what basis will you compete with them? (Check and describe)

- ☐ Product superiority
- ☐ Price
- ☐ Advertising
- ☐ Technology/innovation
- ☐ Other



6. In what aspect(s) is your business better? (What is your distinctive competence?).  
(Check and describe)
  - ☐ Operations
  - ☐ Management
  - ☐ Product
  - ☐ Price
  - ☐ Service
  - ☐ Delivery
  - ☐ Other
7. What have you learned by observing your competition?
8. What competition will you meet in each product/service line?
9. How does your product/service compare with the competition in the eyes of customers?
10. What do you know about others like you, not yet in the market?
11. If you have no competition, what kind (who) might you create by being successful in the marketplace?
12. Do you threaten the major strategic objectives of self image of the competition?

Will you seriously affect their profits? (Will they attempt to destroy you at any cost?)

## **Subheadings to Include**

Competitors Profile  
Product/Services Comparison  
Market Niche and Share  
Comparison of Strengths and Weaknesses

## **What to Accomplish**

Give a brief run-down on the other industry participants. Highlight your particular competitive edge.

The following is a suggested sequence of presentation:

### **Competitors' Profile**

Discuss the competition: size, age, locations, sales volume, management, mode of operation, and other characteristics. Discuss potential competitors who may enter your market.

### **Product/Service Comparison**

Discuss the similarities and differences between your product/service and that of the competition. Compare your operations and management style with your various competitors. Highlight whatever it is that makes your product/service and company more attractive in the marketplace.

### **Market Niche and Share**

State the approximate percentages each of your competitors' holds in the market. Discuss those that hold the large percentages and why they have an edge. Discuss the competitors who have/are coming on strong and are making (or expected to make) bigger gains in the market. Discuss the particular segments of the market that each of your competitors addresses. Discuss your niche in relation to these and what percent of the total market it makes up. Describe where the market is headed and how each competitor's niche and share may change over the next 3-5 years.

### **Comparison of Strengths and Weaknesses**

Discuss your strengths and weaknesses in relation to your major competitors. It is helpful to list the variables down the left-hand column and the competition and your company along the top of the page. The reader can quickly summarize the characteristics, as well as the strengths and weaknesses of all participants at a glance. The major strengths and weaknesses you should summarize are: product superiority, price advantages, market advantages (large contracts with customers or suppliers, proximity to a larger market, proximity of resources) and finally, management strengths and weaknesses (experience and track record, skills, etc.).

**Common Mistakes to Avoid**

- Not identifying know major competitors
- Underestimating competitive strength and potential
- Failure to demonstrate your competitive edge – what makes you unique or better
- Having no strategy for counteracting current competition or emerging competition
- Assuming you have no competition
- Failure to show an awareness of competitors' plans in the market and their business cycles

# **Module 8 – Marketing Strategy**

## **Suggested Length**

2-3 pages

## **Objective**

To explain specifically how you will enter the market, obtain a niche, maintain a market share, and achieve the state financial projections.

## **Pertinent Questions**

1. What is the sales appeal of your product/service?

What is special or unique about it?

2. How will you attract and maintain your market?

How will you expand it?

Over what period of time?

3. What are your marketing priorities among segments and applications? (You can't be all things to all people, regardless of the opportunity.)

4. How will you identify prospective customers?

5. How will you reach the decision-makers?

6. How will you decide whom to contact?

In what order?

7. What level of selling effort will you implement?

Why is this the best approach?

How many salesmen? In-house staff or manufacturer's representative?

How much direct mail and brochure distribution?

How many trade shows? Which ones?

8. What advertising/promotion mediums will you use? (Check and describe)

- ☐ Radio
- ☐ Newspaper
- ☐ Trade journals
- ☐ Magazines
- ☐ Television

9. What are your efficiency ratios and conversion rates?

How many calls are made per demonstration?

How many demonstrations per sale?

How much direct mail and expected response rate?

How many other media ads and expected response rate?

10. How long will the above activities take?

11. What will each customer's average order size be?

What kind of repeat orders can you expect?

12. What are the quotas and sales productivity of each salesperson?

What is the commission structure?

What is the sales cycle?

What are the milestones for meeting sales expectations?

13. What geographic areas will be covered?

14. What will your pricing strategy be?

Will your margins be low or high?

What will your discount policy be?

What will your dealer margins be?

15. How may pricing change over time?

How may pricing change after recouping R&D costs?

What about possible pricing wars with competition?

What are the critical supply and demand factors?

16. How will your packaging and labeling enhance name identification and foster brand loyalty? (Why will a prospective customer want to buy your product just by seeing it?)

17. What will your credit and collection policies be?

18. What kind (and level) of service, warranties and guarantees will you offer?

How will you promote these?

How may these affect profits?

### **Subheadings To Include**

Market Penetration Goals  
Pricing and Packaging  
Sales and Distribution  
Service and Warranty Policies  
Advertising, Public Relations and Promotions

## **What to Accomplish**

Describe your plan of action for being successful in the market. Discuss how your internal policies and your utilization of the media will contribute to that success. Reference your Marketing Plan if you have developed one independently of the Business Plan.

The following is a suggested sequence of presentation:

### **Market Penetration Goals**

Describe your plans for entering the market. State what your estimated sales and share will be. Discuss the sales appeal among specific segments of the market. Discuss how you will identify prospective customers within each segment, how you will prioritize them, and how you will reach them. State your timetables for achieving these penetration goals and how your strategy may be affected by the reactions of competitors. Discuss any major customers who you have pre-committed and how they may help you to further penetrate the market.

### **Pricing and Packaging**

Describe your pricing policies and how they are determined. Discuss the influences of the competition, discounts, cost of goods, market forces and other factors that will affect pricing. Justify your prices, particularly if they are substantially above or below the prices of similar products/services in the marketplace. Above all, demonstrate that your pricing decision is based on your company's ability to make a profit.

Discuss your packaging and labeling design plans. Describe how the brand name, colors, logo, and overall packaging appeal will entice customers to buy. Discuss the directions of instructions that accompany the product and how you make the product easy to use.

### **Sales and Distribution**

Discuss any relationships you have with suppliers and/or distributors. Mention any distribution or licensing agreements that are in force or that you are seeking. Describe how your product/service will be distributed over what geographical area. Discuss the method(s) of sales and retailing, direct sales and other methods. Discuss how these will be attracted, compensated and controlled.

Discuss your selling arrangements in terms of cash sales, financing, leasing, credit and payment terms. If you will be employing salesmen, discuss their quotas and incentives. (Remember that sales volume will be directly proportional to the number of effective sales calls made. Prospective investors will want to see you knocking on doors). Discuss briefly your hiring, training and promotion program.

### **Service and Warranty Policies**

Describe your service arrangements, product support, warranty terms and customer orientation of these things. Discuss how these policies make you competitive and how they may affect profits. Discuss the procedures for implementing these policies. State



how they are reviewed by management and how they may change or be improved upon as you gain experience. Describe how you will handle customer complaints and other problems with product/service.

**Advertising, Public Relations and Promotions**

Describe your advertising, public relations and promotional programs and campaigns. Discuss the mediums you will use and any professional ad agencies you may retain. Describe your overall approach and strategy for introducing your product/service and gaining its market familiarity and acceptance. Discuss how the company's name, or the product/service name may contribute to market identity. Discuss your attendance at conventions and trade shows within the industry.

**Common Mistakes to Avoid**

- Discussing "marketing" and "sales" in the same terms: ("Sales" is dealing directly with your customers; it is a developed art form. "Marketing" is enticing them to consider your product; it is an acquired discipline).
- Justifying your prices by the cost to produce, market and/or sell your product/service. (Sales price is a function of value in the eyes of your customers only. Too low a price is as detrimental as too high a price).
- Assuming that your sales efforts, whether in house or factory direct network, can be set up with minimal time and expense. (It takes as much as one year for a salesperson to get acquainted with a product and learn a territory.) Start-up ventures should investigate using established agent/representative/distributor network; the learning curve and amount of time to establish is much shorter
- Assuming your distribution network will give your product/service equal "sales" time, if you do use an independent agent or representative
- Failure to promote marketable differences in your product over the competition
- Attempting to immediately fill several lucrative, but unrelated market gaps
- Strategy too broad, not rational or achievable
- Underestimating the importance of packaging and brand name

# **Module 9 –** **Manufacturing/Process/Operations**

**Suggested Length**      3-5 pages

**Objective**      To explain how you will produce your product in a cost efficient way and ready it for the market.

## **Pertinent Questions**

1.      How will you accomplish production (or conduct service operations)?

2.      How much will you do internally?

By what methods?

3.      How much of production will be accomplished through subcontracts?

Initially?

After two or three years?

4.      What materials and components are required for production?

What are the critical parts?

5. Who/what are the sources of supply for these parts?

Are any of these parts sole sourced?

Do you have back-up vendors or alternatives should materials or suppliers become unavailable?

What are the lead times of these parts?

6. Are production facilities and equipment leased or purchased?

What is the condition of the facilities and equipment?

Are there any liens on the property or equipment?

Have you done a title search?

7. What is your planned capacity for level of production or operations?

In dollars?

In units?

How may this be expanded?

What are the production cycles?

8. What are the standard costs for production at different volume levels? (breakdown of fixed and variable costs)

9. What are your plans for equipment set-up and facility layout so production flows with a minimum of problems and bottlenecks?

10. In planning facility and equipment layout, have you considered: future expansion needs/plans?

Output capacity – will it meet peak demand, or meet lower levels of demand and stockpile inventory?

Space requirements for restrooms, office, storage, receiving, manufacturing, lounge, other?

11. Will the plant be set up for process layout (machines grouped by function) or production layout (machines grouped according to the needs of the product being manufactured)?

12. Have you determined the order in which jobs will be done at each workstation? (Check and describe)

- ☐ First come/first served
- ☐ Shortest operation time (SOT), first served
- ☐ Last in, first served
- ☐ Other

13. Have you separated the cost to produce each unit by material and labor?

Have you figured the indirect costs; i.e. supplies, utilities, management and clerical salaries, insurance, taxes, depreciation, interest, etc.?

What is the breakeven point?

14. What are your other production control procedures?

What is your safety record and procedures?

15. What is your quality control system?

16. What are your inventory control considerations?

What is your level of "buffer stock" needed to absorb random variations of demand?

What kind of fixed order or cycle order inventory system will you implement?

What is the shelf life of the product?

17. What are your labor considerations?

What are the effects of possible strikes/union activity?

What are the training needs?

What are the effects of changes in compensation/productivity, structure or quotas?

18. How will you make the most effective use of your labor pool?

Can your personnel handle more than one machine or function?

19. What is the potential environmental impact of your plant location or manufacturing process, in terms of:  
Restrictions? Licenses? Zoning?  
Disposal of waste?  
Pollution and noise control?  
Other considerations?
20. What are the advantages and disadvantages of your present or planned location, in terms of:  
Proximity to customers?  
Proximity to labor, suppliers, capital?  
Access to transportation, energy, utilities, (rates) and other resources?  
State and local laws (zoning, regulation, etc.)
21. What are the characteristics of your location in terms of size?

What are the characteristics of your location in terms of structure?

What are the characteristics of your location in terms of surrounding (is the area stable, changing, improving, deteriorating)?

22. What short-term or long-range plans do you have/need for the facility and location?

What short-term or long-range plans do you have/need for renovations and costs?

What short-term or long-range plans do you have/need for additional features or replacement fixtures?

23. What short-term or long-range plans do you have/need for a new location?  
How does your location affect your operating costs?

24. What other businesses (kinds) are in the area?
25. What will be the costs and timing of any acquisitions?
26. What economic impact may your plant location, and business in general, have on the community in which you will be located? (Check and describe)
- ☐ Job creation
  - ☐ Improving the sales of area suppliers
  - ☐ Existing companies relocating to the area, or spurring new companies
  - ☐ Other

### **Subheadings To Include**

Location  
Facilities and Equipment  
Manufacturing Process and Operations  
Labor Considerations  
Environmental and Economic Impact

### **What to Accomplish**

Demonstrate you have a good handle on all aspects of your company's manufacturing process and operations. This is where most business plans fall short, because it is the area that causes most business plans to fail. This is where the major costs and headaches of a company are found. You want to show you have given these issues serious thought. Describe how you will minimize the cost and inherent problems of manufacturing, while maximizing profits through efficient operations.

The following is a suggested sequence of presentation:

#### **Location**

Describe your company's location, or proposed location. State if the land will be purchased, leased, or rented. Describe the surrounding area and other types of businesses in the neighborhood. Discuss the advantages and disadvantages of your location in terms of proximity to customers or markets; availability of labor, suppliers, and capital; access to transportation, energy, utilities, and other resources. Discuss the state and local laws such as zoning, licenses, and other regulations that may affect your company. Highlight the favorable climate that exists in and around the location. Discuss how your location will affect your operating costs. Finally, state whether your long range plans and needs call for you to remain where you are, or move to establish a new location.

### **Environmental and Economic Impact**

Describe how your company and its manufacturing operations will impact the environment and the community. Discuss how you will dispose of waste; apply for applicable licenses; be affected by other restrictions, such as pollution and noise control. Highlight the economic benefits that will result from your business operating in the community. Discuss the “trickle down” effect of your business boosting others, creating jobs, etc.

### **Facilities and Equipment**

Describe the characteristics of the facilities in terms of size, structure, and condition. Describe the kind of equipment used in your manufacturing operations and its condition. State whether the facilities and equipment are purchased, leased, or rented. Discuss any special parts of needs that must accompany the facilities and equipment. Discuss the maintenance and replacement requirements of the facilities and equipment. Highlight how and why the facilities and equipment give you better production or operating advantages over similar businesses. Finally, discuss the long-range needs and plans for your facilities and equipment.

### **Manufacturing Process and Operations**

Describe how you will manufacture and produce your product, and/or conduct service operations. Discuss the methods and processes involved. State how much of this will be done internally and how much will be subcontracted. Discuss how internal operations of subcontracting relationships may change over the next few years. Describe the raw materials and/or components used in producing your product. Discuss how these are supplied and your back-up system should your primary suppliers become unavailable.

State your current, or initial projected capacity for level of production or operations in dollars and in units. Discuss how this may be expanded or changed in any other way. Break down the fixed and variable costs of production and operations at different volume levels. Describe the costs to produce each unit by material and labor. Include indirect costs (utilities, taxes, insurance, etc.) and show the break-even point.

Describe the product/operations layout (a sample is included in this guide’s appendix). Discuss workflow and production control procedures. Discuss your safety program, quality control, and inventory control systems. Show how they are conducive to a positive and productive work environment, and are cost effective as well.

### **Labor Considerations**

Discuss what labor requirements you will have; how you will hire and train them. Discuss how you will handle the possibility of strikes and other labor union activities. Discuss how you will minimize turnovers, structure compensation, productivity quotas, and employee benefits. Discuss how you will handle discipline cases and how you will communicate company policies as they relate to infractions and expectations.



**Common Mistakes to Avoid**

- Failure to properly assess the manufacturing process, operations and alternative methods in terms of their costs (taxes, freight and installation, maintenance, etc.), production capabilities, serviceability, delivery times, and other considerations
- Not adequately identifying or providing for ancillary needs and equipment, such as special drainage requirement, ventilation systems, fixtures, etc.
- Improperly planning for efficient plant layout, materials handling, work spaces, travel, and other considerations
- Poor scheduling of work force, hiring and layoff, overtime, additional shifts, subcontracting and inventories
- Not optimizing the combination of available capacities to meet demand and hold down costs
- Poor inventory control planning. No balance between meeting customer demand and minimizing associated costs, i.e., ordering production, handling and storage, capital allocations, shortages, etc.
- Failure to maintain proper inventory levels; inadequate inventory control system; inadequate controls in monitoring purchasing function
- Failure to identify and account for all product costs (fixed, variable, indirect)
- Poor personnel management and hiring practices; poor attention to selection process, training, pay scales and benefits, union influences, and explanation of company policies and expectations
- Underestimating the environmental (especially as it pertains to regulations) and economic impact
- Failing to plan for long-range needs and changes in location, facility, and equipment

# **Module 10 – Management and Ownership**

**Suggested Length**      2-3 pages

**Objective**      To demonstrate that the management and leadership is capable, fairly compensated, and given every incentive to be successful. To show the ownership distribution, who they are, and how much they own.

## **Pertinent Questions**

1.      Who are your key managers?
  
  
  
  
  
  
  
  
  
  
2.      What is the personal history of each principal?  
Age  
Educational background (formal and informal)  
Talents, skills, abilities  
Health  
Outside interests
  
  
  
  
  
  
  
  
  
  
3.      What does each principal bring to this venture?  
Number of years direct experience in industry  
Track record  
Length of time with this project  
Business/management background
  
  
  
  
  
  
  
  
  
  
4.      What is the position and role of each principal?  
Title  
Responsibilities, duties and/or overlapping functions

5. What is the compensation package of each principal?
  - Salary
  - Profit sharing
  - Bonuses and other fringe benefits
  - Terms of employment
  
6. What is the ownership interest of each principal?
  
7. Who is on the Board of Directors?
  - Inside representation
  - Outside representation
  - Age
  - Corporate affiliation
  - Compensation
  - Ownership
  - Special contributions
  
8. What is the primary objective of the current owners and managers? (Check and describe)
  - ☐ Sellout in x number of years
  - ☐ Buy out investors
  - ☐ License idea for royalties
  - ☐ Franchise idea
  - ☐ Other
  
9. How do you intend to attract and compensate additional key people as the company grows?
  
10. Do any of your people have outstanding "noncompete" agreements with previous employers?

Do they have one with you?

Have you obtained legal advice on their validity and applicability?

11. Has the loss of a key member of your team been considered from a tax planning standpoint, from a knowledge, information and learning curve perspective and from a management succession point of view?
12. Is there a written succession plan?
13. How much life insurance is being carried on key personnel where the company is the beneficiary?
14. What is the amount of stock currently authorized and issued?
15. Who are your current stockholders?

How many shares do each own?

What are the warrants, rights, and options?

16. What about you? What is your reason for going into business?

Are you physically suited to do the job?

17. Who is on your professional team? (Check and describe)
- ☐ Lawyer
  - ☐ Accountant
  - ☐ Banker
  - ☐ Tax specialist
  - ☐ Trade association
  - ☐ Consultants (marketing, management, systems, etc.)

### **Subheadings To Include**

Management  
Board of Directors  
Ownership  
Professional Support Resources

### **What to Accomplish**

Show that your company has a proper balance. Having too many marketing and sales type people in management is as bad as having too many bean counters (finance people) making the critical decisions. Demonstrate adequate expertise in all areas of marketing, management, technical finance, manufacturing, etc. Show you have recruited in the areas where you personally are weak. Above all, differentiate between ownership and management roles, even if the same individuals assume them.

The following is a suggested sequence of presentation:

#### **Management**

Discuss your management team. Give a brief background of the principals (decision-makers). Describe each principal's distinctive competence and what they bring to the company. Discuss education, experience, knowledge of industry, special talents, training, skills, and abilities.

Discuss each principal's position, duties, and responsibilities. State how long they have been with the project and any significant accomplishments with the company. Discuss each principal's compensation package, i.e.: salary, profit sharing, bonuses and incentives, fringe benefits and other terms of employment. State what each principal's objective is with the company; i.e., what they want to get out of their involvement, short term and long term. Discuss any noncompetitive agreements or other legal contracts that each has executed with the company.

If all the management positions have not yet been filled, describe the qualifications that will be needed in a person to fill these positions. State how and when you expect to

recruit additional key people. Discuss how you intend to attract and compensate them. Along these lines, describe any positions that may be created as your company grows.

Describe what options or alternatives you may pursue if you lose a key person. State what your own personal plans are for grooming a successor. Discuss how you will minimize the negative impacts of losing or having to fire key managers.

Allude to the resumes and personal references from customers, suppliers, bankers, former employers, etc., on each of your key people that are included as supporting documents in your plan's appendix.

### **Board of Directors**

Discuss who is on your Board of Directors and why they are valuable to the business. State what their field of expertise is and their other corporate affiliations. Describe any special contributions they have already made, or are expected to make. State how the Board is compensated for their time and advice, how often they meet, and how much control or influence they wield.

If you have not yet recruited a Board of Directors, describe the kind of individuals you would like to place, how and when you expect to recruit them.

### **Ownership**

Give a breakdown of the ownership interest of all parties, who owns what and how much. Describe the form of ownership; i.e., stock, partnership percentages, notes, etc. State the type of ownership, i.e., preferred stock, common stock, straight debt, debt with warrants, convertible debentures, etc.

Discuss the amount and kind of ownership in reserve (not yet issued). Discuss how the ownership breakdown may change by taking on additional managers and/or capital from investors. Describe the proposed distribution of ownership if not yet firm.

Discuss any plans or agreements you have pertaining to buy outs, dissolution of company, managers/owners leaving the company and other possible developments. Discuss the warrants, privileges, rights and options of all current and future owners.

If you are seeking financing through this business plan, allude to personal financial statements included in the Appendix.

### **Professional Support Services**

Describe your support team and how each has, or will, assist in the development and ongoing management of your company. A partial list may include: lawyer, accountant, banker, tax specialist, trade association affiliation, public relations consultant, marketing/advertising consultant, technical/systems consultant, etc.

If you have not yet used consultants, show the reader you are aware of the support services your company may need. Discuss which professional you may use and when they would come into play.

### **Common Mistakes to Avoid**

- Having friends, relatives, or other people in key management positions who are not qualified for specialized functions
- Wanting the reader to assume that a successful manager from a different industry will be successful in your company's industry
- Failure to protect the proprietary nature of your product or confidentiality of your operations by not having key people sign noncompetitive agreements and/or employment contracts
- Offering particular people too much ownership or other compensation because you are desperate to attract and keep good people (base your incentives on achieving milestones so that key people will pay for themselves)
- Failure to identify and recruit a prestigious and active Board of Directors
- Demonstrating an unwillingness to step aside after the company outgrows your entrepreneurial inspiration and requires more of a maintenance type manager
- Not having a succession plan or crisis management plan in the event of unexpectedly losing key people
- Failure to provide for reserve ownership for use in second-round financing, attracting additional Board members or management, with a minimum of hassle from current owners
- Locking into wrong type ownership, in light of tax benefits, dividend disbursement or other priorities of current or future owners
- Failure to provide for advice, counsel and support services of needed professionals

# **Module 11 – Administration, Organization, and Personnel**

**Suggested Length**            1-2 pages

**Objective**                      To show control and efficiency of standard administrative functions. To outline the company organization, lines of authority, and responsibility. To give a sketch of your staffing needs.

## **Pertinent Questions**

1.      What is your organizational structure? (Include and organization chart.)

Does everyone know whom reports/answers to whom?

Are clear lines of authority and responsibility established?

2.      Do you have a bookkeeping system set up?

3.      What are your administrative policies, procedures, and controls for billings, payments and accounts receivable?

What are your administrative policies, procedures, and controls for management reporting?

What are your administrative policies, procedures and controls for employee training, probation periods, promotions, incentives, discipline, etc.?

What are your administrative policies, procedures and controls for travel, phone usage, supplies, car allowance and other expenses?



4. What are your management philosophies and style?

How will you motivate employees (incentives)?

How will you create a positive work environment?

How will you manage for goal attainment? (MBO – Management By Objectives)

How will you encourage creativity and entrepreneurship?

How will you foster commitment and loyalty in your employees?

5. What is your current (or initially planned) personnel make-up?  
Number of employees  
Skills  
Seasonal hiring and layoff factors

6. What is your average expected turnover?

7. What are your personnel needs?  
6 months  
1 year  
3 years  
Number of people needed  
Skills  
Full-time  
Part-time

8. Are the people you will need (level of knowledge, qualifications) available in the marketplace, or will you have to train?
  
9. How will you attract and compensate employees?  
By skill level  
By job class  
Other
  
10. How do your personnel know where they stand?  
What are they supposed to do (job descriptions)?

When are they supposed to do it?

How are they supposed to do it?

What are the expectations of management and prospects for advancement?

11. Do you have periodic performance evaluations?
  
12. What are the costs of these administrative functions?

### **Subheadings to Include**

Organizational Chart  
Administrative Procedures and Controls  
Staffing and Training  
Management and Control Systems

## **What to Accomplish**

Your readers are going to want to know how the company is managed, as much as who is managing it. Demonstrate your awareness and understanding of the administrative details. Explain what personnel are needed, how you will fill and train these positions. Include an organization chart that illustrates the company's structure, lines of authority, responsibility and delegation. Finally, give a brief synopsis of your management style and systems for ensuring excellence.

The following is a suggested sequence of presentation:

### **Organizational Chart**

Illustrate the lines of authority, responsibility, and delegation with a chart. Make it clear who answers to whom. Do not make these areas of accountability look too authoritarian or rigid. Allow for flexibility and overlap of duties if appropriate to your situation. The reader should be able to glance at the chart and get a clear understanding of the management and personnel structure of the company. A sample organizational chart can be found in this guide's Appendix.

### **Administrative Procedures and Controls**

Describe your administrative systems, procedures and controls. Mention specifically how you will handle the accounting and bookkeeping functions. Discuss how you will monitor and audit customer payments, bills incurred by the company, and accounts receivable. State how you will track and control internal expenses and operating costs. Discuss any other major administrative systems that are a necessary function of your venture, such as ordering, collecting, receiving, organizing, filing, storing, disseminating and disposing of goods, services and/or information.

### **Staffing and Training**

Discuss your current, or needed personnel and their functions. State how they complement one another. Describe the nature, length, and cost of training needed for employees. Discuss any present or planned employment contracts you expect to utilize and enforce. Describe how personnel are identified, attracted, hired, and compensated. State your current or planned number of employees and future provisions for growth. Describe the learning and experience curve for different positions and the amount of time before they are self-functioning and productive. Sample job descriptions may be included in your plan's Appendix.

### **Management Control Systems**

Briefly summarize your management philosophies and style. Tie these in with how you will go about getting the most out of your people. Describe your plans to encourage group goals over individual goals. Discuss how you will prevent your team from stagnating or becoming too bogged down in the routine and predictable decisions. In general, discuss how you will keep the lines of communication open, encourage creativity and commitment to company goals; remain lean, flexible and action oriented.

## **Common Mistakes to Avoid**

- Poor or inadequate system of accounting and other business records
- Failure to have some preconceived notions on how to manage and encourage the best possible performance
- Not having enough personnel to accomplish the tasks at hand
- Being over staffed; too many people doing too little work
- No clear lines of authority or accountability; poor management control systems
- Inadequate planning for future staff needs in light of growth or other changes
- Poor training and orientation procedures for personnel
- Offering substandard compensation and incentives
- Top heavy management
- Failure to demonstrate company purpose and commitment to team goals (not showing what is good for the whole is good for the part)

# **Module 12 – Milestones, Schedule and Strategic Planning**

**Suggested Length**      1-2 pages

**Objective:**      To outline major company objectives and explain how and when they will be achieved.

## **Pertinent Questions**

1.      What needs to be done to launch this venture?

What needs to be done to raise the capital?

What needs to be done to identify and penetrate the market?

What needs to be done to identify, recruit, place and train management and personnel?

What needs to be done to locate the company, line up suppliers, etc.?

What needs to be done to go operational?

2.      Who is going to do these things?

When are they expected to be completed?

3.      What are the critical milestones and junctures that must be reached to make other things happen?

4. Do you have a “timeline” chart that identifies these milestones with month/day/year for completion?
5. Have you done any strategic planning for the venture?
6. What professionals and consultants have you retained, (or will be needed), to keep you on schedule and help you reach your goals?
7. Do your goals reflect a ‘real world’ view, or hopeful thinking?

Are your goals actually attainable within the timeframes you set down?

How will you assure their attainment with a minimal margin of error?

8. What will you do if/when you do not reach key milestones?
9. Do you have a unified and coordinated effort toward the attainment of these goals?

### **Subheadings to Include**

Major Milestones  
Schedule  
Strategic Planning

## **What to Accomplish**

Demonstrate that you know what must be done and how you will pursue these goals in a realistic way, within a reasonable timeframe. Concentrate on the critical milestones. Summarize the implications of not attaining these milestones, and what alternatives you may then pursue. Your goals should focus on positioning yourself in the marketplace through strategic planning.

The following is a suggested sequence of presentation:

### **Major Milestones**

Summarize the significant goals that you and your venture have already reached. Describe how you attained them and what you learned in the process. Discuss what needs to be done and what must happen for you to be successful with the company. State who is in charge of seeing these things accomplished. Refer to a timeline schedule for things to be completed. Describe why these goals and timeframes are realistic. Finally, give an example of the teamwork and unified commitment towards the attainment of these goals.

### **Schedule**

Include a timeline chart. This chart is a schedule of significant milestones and their priority for completion. The far left-hand column indicates the day, month and year for completion. The second from the left column states the milestone or goal to be completed. The third column from the left states who is charged with the task of overseeing or completing the goal. The last column states what options or alternatives may be pursued if the goal is not attained.

There are several ways to present the milestones within the chart. You may list them in order of priority or in order of importance. (The two are not necessarily the same.) You may also list them in logical order for completion. In other words, one must happen before the other can be considered or reached.

A sample timeline chart is included in the Appendices.

### **Strategic Planning**

This is normally a very difficult issue for an owner/manager to tackle. It takes quite a bit of foresight and expertise, combining academic techniques with past experience in the company/industry. As with all other issues in you plan, do not try to bluff or be afraid to admit that you don't have all the answers. Your best bet is to consult professionals in the field. Lacking the resources to get professional help, get together with your partners, managers, staff, friends, and other people involved, and conduct a brainstorming session.

In a brainstorming session, no idea or comment is too remote. Creativity and openness is to be encouraged, without criticism or qualification. Have your team throw out ideas on all major aspects of your product/service; and operations. After all ideas are exhausted, prioritize, assign, and begin putting some direction toward their exploration.

You should strategize according to:

- Learning/experience curve
- Industry participants
- Leadership/management style
- Available resources
- Security of information
- Flexibility, simplicity
- New approaches, element of surprise

The biggest factor in formulating effective strategies, while avoiding ones with inherent risks and failure, is to have an honest assessment of your strengths and weaknesses and to ask the right questions. In writing this section of your business plan, make it clear to the reader you are indeed addressing the right questions.

### **Common Mistakes to Avoid**

- Failure to identify and prioritize the really significant or critical milestones
- Inadequately describing how you will attain your goals and who is responsible for the task
- Milestones not realistic, given available resources and/or timeframes for completion
- Failure to offer alternative plans of action if and when major milestones are not reached within a designated time period
- Failure to look ahead and plan for ways to improve sales and operations
- Believing that everything will go according to schedule



# **Module 13 – The Critical Risks and Problems**

**Suggested Length**      1-2 pages

**Objective:**      To demonstrate your knowledge of inevitable or potential problems and risks; to show your willingness to face up to them and deal with them in a forthright manner.

## **Pertinent Questions**

1.      What are the inherent and potential problems, risks, and other negatives your business will/may be faced with?
2.      Is the company or any principals involved in any threatened or pending litigation or disciplinary action?
3.      Is the company facing any stringent regulatory requirements?
4.      Is the company facing legal liability or other insurance problems?
5.      What can you do to avoid these problems?
6.      When are they likely to occur
7.      How will you deal with them as they arise?
8.      How can you minimize their impact?

9. What can be learned from these problems?
10. How may you possibly turn these problems into opportunities?

### **Subheadings to Include**

Summary of Major Problems Overcome  
Inevitable Risks and Problems  
Potential Risks and Problems  
Worst Case Scenarios

### **What to Accomplish**

Address the negatives that exist or you think may develop. The reader, especially investors, will appreciate your integrity by giving them the full story. Counteract the downside by describing how you plan to avoid, minimize, or turn around the major problems and risks.

The following is a suggested sequence of presentation:

#### **Summary of Major Problems Overcome**

Start by summarizing the major problems you have already had to deal with. Give examples of how you attacked and resolved these. Highlight especially innovative and creative approaches you have used to solve problems in your startup and what was learned from addressing these problems.

#### **Inevitable Risks and Problems**

Describe the nature of the problems and risks that your venture will be faced with. Discuss when these problems and risks are expected to present themselves. Discuss how you may avoid or minimize their impact. Describe how you will deal with them. Discuss any threatened or pending litigation or disciplinary action the company or principals may be involved in. Discuss any other legal liability or insurance problems.

#### **Potential Risks and Problems**

Describe and discuss in the same manner as above the problems and risks that may present themselves. Discuss what circumstances or situations would prompt these to happen and how you would deal with them if they did.

**Worst Case Scenario**

Give a “worst case” scenario of all inherent and potential risks that the company may suffer. Summarize the downside and what, if anything could be salvaged or recovered if these risks did materialize.

**Common Mistakes to Avoid**

- Failure to identify market barriers
- Failure to identify uncontrollable variables
- Failure to state inability to guard trade secrets (having no patent or non-compete agreements if a key member of your team leaves to join a competitor)
- Failure to give an honest assessment of the “downside”
- Failure to mention pending litigation or other legal liability problems

## **Module 14 – Financial Data and Projections**

### **Suggested Length**

As needed

### **Objective**

To illustrate current financial status and projection. To describe the type of financing desired; the amount; payback terms; and potential return on investment.

### **Pertinent Questions**

1. Do you have financial statements for the past three to five years?

Do you have current financial statements for the company?

Do you have past and/or current financial statements on yourself and other principals?

2. If your fiscal year ended over three months ago, do you have recent comparative interim financial statements for your company?
3. Do you have copies of company federal income tax returns for the last three years?
4. What are the financial projections for this venture for the first three to five years?  
(Should be included as a chart in your business plan. Monthly the first year, quarterly the second, and annually the third and after.)

5. Are these projections based on debt or equity funding?
6. How do these projections compare with industry norms? (Are the costs, revenues, profits, etc. higher or lower than similar businesses?)
7. What assumptions are the projections based on? (Give explanations and best/worst-case scenarios)
8. What are the venture's start-up research and development costs?
9. What are the costs to produce the product and get it into the market?
10. What are the ventures most significant costs?

How volatile are they?

How do you plan to minimize them?

11. Do you have a cost and cash flow control system in place (your procedures for monitoring and authorizing expenses)?
12. If your venture is a going concern, what are your accounts receivable?

13. Have you measured every phase of the venture's operation in terms of profit and loss?  
(Every department, piece of equipment, employee should be viewed as a profit center.)
14. What are the margins? (difference between the cost to produce your product(s) and expected sales projections)
15. Does the projected sales volume justify entering the market?
16. Have you completed an analysis of your capitalization decisions?
  - ☐ Lease/purchase
  - ☐ Tax consequences
  - ☐ Cash flow consequences
17. Have you completed an analysis of your fixed costs versus variable costs?
18. Have you completed an analysis of cost alternatives?
  - ☐ Subcontracting possibilities
  - ☐ Shared services
  - ☐ In-house vs. out-of-house expenses
19. Have you completed a bread-even analysis?
20. Have you forecasted the amount of product you will have to inventory?
21. How much investment do you need? How will it be used?
  - ☐ Investment capital (property, equipment, etc.)
  - ☐ Working capital (operating, inventory, etc.)

22. What will be the effect on the business with the injection of new funds?
23. Will the money be required all at once, or injected over a period of time?
24. Will these funds be raised from debt, equity, or both?
25. What collateral is being offered?
26. Will this be the first request for outside funding?

If not, who else has invested?

27. Who has/will be approached for investment? What were the results? Are they committed?
28. How much have you and other principals invested? What is each individual's percent ownership?

What is the rationale for the proposed share distribution?

29. What access to public funding sources do you have that you may qualify for? (Check and describe)
- ☐ State bonds
  - ☐ Government land grants
  - ☐ SBA (Small Business Administration) programs
  - ☐ SBIR (Small Business Innovation Research) programs
  - ☐ Other

30. What are the terms of investment?
- ☐ Price per share or partnership unit
  - ☐ Minimum amount
31. What may be the dilution in percentage of ownership to the initial investors?
32. What provisions have been or will be made for investor liquidity/payback?
33. What is the payback period?
34. What is the potential return to investors?

How does this compare to what investors are earning from competitors and the industry in general?

35. If there will be any ownership authorized, but not issued, what will be the percent? What is the intended use?
36. Do you eventually plan to go public with an IPO? When?

Do you plan to eventually sell the company to a large corporation? When?

37. Are the end results of financing in line with the company's stated objective?

Does it allow for better control and flexibility? Does it provide for needed resources?



38. Has an accountant reviewed your finances and projections?
39. What leases, loan agreements or contracts are currently with the venture?

### **Subheadings to Include**

Funding Request/Terms of Investment  
Current Financial Statements  
Proformas  
Assumptions

### **What to Accomplish**

This section is highly scrutinized by potential investors. Most sophisticated investors will undertake an independent financial analysis of the venture. This section must be thorough and convincing. Document the need for funds. Demonstrate that you will use them responsibly and how they will ensure your success. Use a standard format in the preparation of all statements. Show that your projections are realistic, based on the margins between your cost to operate and expected sales. Support these projections up with reasonable assumptions. The use of a computerized spreadsheet program (Microsoft Excel, Lotus 1-2-3, etc.) or other business planning software is recommended for the statements.

#### **Funding Request**

State the amount and type (debt or equity) of funding being sought. Describe the intended use of the funds. Give a breakdown of how the money will be applied, i.e., capital equipment, property, facilities, inventory and operating costs. Discuss what effect the capital will have on the business in terms of growth and profitability.

State when the money will be needed. Include a graph showing the amount and timing of the funds. Discuss the level of investment already made in the venture. State whether it is funded internally or from outside sources. Discuss the amount of stock or ownership that will be made available, but not issued in the current offering. Discuss future funding expectations and the stages when it will be needed. Describe how the unissued ownership may be used at future stages and how, if at all, this future fundraising will effect the current offering.

Describe the terms of investment. State the minimum amount to participate. Describe how this offering will dilute the ownership of the initial and subsequent investors. Discuss the rationale for the proposed distribution. Discuss the payback period and potential return on investment. Describe why the investment is attractive and how it

compares to other deals within the industry. Discuss any provisions for investor liquidity and the earliest date the investor can recover initial investment.

State any collateral being offered. Discuss whom you have already approached about investing and the results of the contact. Discuss any access you have to additional investors or funding sources. Discuss what the total exposure of the investor is if the deal goes bad. Discuss what percent, if any, of the investment could be recouped via tax benefits, liquidation or other means.

### **Current Financial Statements**

If the venture is already in operation, you will need to provide three basic statements:

1. Income (Profit & Loss) Statement
2. Balance Sheet
3. Cash Flow Statement

Although it is wise to have complete itemized statements available for the purposes of reviewing a business plan, the reader will be largely interested in the bottom line. For this reason, simplified statements will suffice. Statement samples can be found in Appendix B. It may also be necessary for you to have past tax returns on hand.

Another helpful tool to include is a budget deviation analysis. This simply shows the difference between your budgeted figures, and the actual outcome. Not only is it an excellent internal tool for management, it also shows potential investors that you gauge expectations against actual developments. Be sure to explain unusual fluctuations.

Describe the terms of any existing leases, loan agreements, or contracts currently binding the company.

### **Proformas**

Your projections should be based on realistic expectations. Be ready to justify all profits and losses for a 3-5 year period. You should provide proformas for the following:

1. Projected Income Statement
2. Projected Balance Sheet
3. Projected Cash Flow Statement

These statements should reflect the effect of the proposed financing on a monthly basis for the first year, on a quarterly basis for the second and third year, and on an annual basis thereafter. It is also helpful to present these statements in the three ways: upside, downside, and probable. Prospective investors also like to see long-range thinking, which implies you plan to be involved and committed to the venture for many years. Probable projections for 3-5 years are sufficient to carry this section. Include all other statements in your appendix.

It is also to your benefit to provide a break-even analysis and estimated costs and budgets for each department; i.e., marketing, manufacturing, inventory, administrative overhead, etc.

When reviewing your projections, the reader will assess the potential of making a healthy return on the required investment. But invariably, the reader will be thinking, "What is the worst that could happen?" You should be prepared to discuss the alternatives if the downside is realized.

### **Assumptions**

Assumptions are a natural part of predicting the future, especially when it applies to economics, markets, and financial projections. Your projections are only as good as the assumptions under which the projections are based. The trick is in making reasonable assumptions that those concerned with the startup feel are valid. Use this section of your business plan to state the assumptions you are making. Discuss why you feel they are valid and what alternatives you may pursue if they do not materialize.

Listed below are some considerations you may have to address when discussing what your assumptions are based on:

- Inventory turnover
- Accounts receivable collection period (and bad debt projections)
- Accounts payable payment period
- Purchasing in volume
- Extent of startup and future capital expenditures
- Useful life of company's assets and related depreciation schedules
- Interest rates on debt
- Effective income tax rate
- Expected capacity and utilization of plant and equipment; availability of suppliers and components
- Variable levels of production based on downtime, holidays, number of shifts and employees, percentage of overtime, etc. (How are you arriving at your maximum output?)
- Sales and share of the market based on characteristics of market, penetration strategies, pricing, competition, and trends of the industry
- Growth and success based on management training and learning curve
  - Addition of specialized services
  - Salaries, commissions, profit sharing levels
- Sales by markets and products. Margins of each

### **Proformas Using Ultimate Business Planner Software**

To help you prepare financial projections, we recommend the use of a financial software package called *Ultimate Business Planner*. *Ultimate Business Planner* was designed and developed by Atlas Business Solutions for entrepreneurs who are neither financial or computer experts. Since assumptions drive the venture creation process, you need only

enter the values for some underlying assumptions about the venture to generate a complete set of financial projections. Financial ratios, along with many other helpful tools are also included.

*Ultimate Business Planner* can also assist you in organizing and writing your business plan. Example business plans are provided in the program to guide you on your way. When used together, *Ultimate Business Planner* and the *Business Plan* workbook provide an unbeatable guide to a winning business plan. For more information, visit [www.bptools.com](http://www.bptools.com).

If you do not use *Ultimate Business Planner*, you will have to prepare your financial projections using more traditional methods, such as the following:

1. Select the statement from Appendix B you wish to complete.
2. Use that statement as a guide to create a spreadsheet that will be used in creating your statement.
3. Gather the needed information for the statement.
4. Follow the steps in the Appendix for instructions on completion of the projected Income Statement, Balance Sheet, and Cash Flow Statement.
5. Repeat steps 3 and 4 for other scenarios under consideration.

Using the information contained in the sets of financial projections (prepared from *Ultimate Business Planner* or manually), you are now able to answer the key financial resource questions.

1. How much money do you need to start or expand your venture?
2. When will you need this money?
3. Should the money be debt or equity?
4. Where should you get this money?
5. What is the value of this money to you in terms of the equity you will likely give up for it?

## **Financial Ratio Analysis**

Whether the statements you include in your business plan are current or proforma, a quick analysis of the financial ratios can provide a wealth of information. Liquidity, efficiency of asset management, efficiency of debt management, and profitability can all be determined with a few simple formulas. An analysis of current financial statement ratios tells an investor how your company has been performing. Conversely, an analysis of proforma financial statement ratios tells an investor how your company is likely to perform in the future.

You will want to perform a financial ratio analysis before you submit your business plan, because this is likely to be one of the first steps performed by a potential investor. It is not recommended to include the financial ratios in your plan, nevertheless be familiar

with where you stand on each. Investors will calculate the ratios they desire, regardless of whether you have included them or not.

A ratio by itself is worth little until you compare it to another. Ratios can either be compared to industry averages (often in the form of a range) to determine performance within that industry, or to themselves over time to evaluate trends in position. There is no magic ratio to obtain, nor is it best to be the highest or lowest for a particular ratio. The purpose of comparing ratios to industry averages is to find ratios that fall outside the normal range so further analysis can be done to determine if a problem exists. You can find industry ratio averages on the Internet or in annually printed guides such as Risk Management Association's *Annual Statement Studies* (formerly known as Robert Morris Associates). This annual publication includes financial ratio benchmarks from over 600 industries in an easy-to-read format and is available at most libraries.

Comparing ratios to themselves over a period of time is called trend analysis. This comparison can give clues as to whether a given financial situation is likely to improve or deteriorate in the future. Deteriorating ratios should be examined to determine what is causing the problem and what can be done to fix it. Ratios that are improving should also be examined to determine what caused the improvement.

There are five categories of ratios: liquidity, asset management, debt management, profitability, and market value. Each category is described below and includes common ratios that fall within the category. Remember that this is not a complete list, nor does it fully explain all aspects there are to know about financial ratios. This overview is simply meant to give you an introduction to some of the different types of ratios and how they are used.

**Liquidity Ratios** are ratios that show the relationship of cash and other current assets to current liabilities. They are used to help determine if a business will have trouble satisfying its financial obligations. The most common liquidity ratios are the *Current Ratio* and the *Quick Ratio*.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

The *Current Ratio* measures short-term debt-paying ability. A declining *Current Ratio* usually indicates trouble ahead in meeting financial obligations.

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}}$$

The *Quick Ratio* measures immediate short-term liquidity. It shows how well short-term obligations can be met without relying on the sale of inventories to acquire the cash needed.

**Asset Management Ratios** measure how effectively assets are being managed. They are used as a guide to determine if assets are too high or too low with respect to current and

projected operations. Two of the asset management ratios are *Inventory Turnover* and *Average Collection Period*.

$$\text{Inventory Turnover} = \frac{\text{Sales}}{\text{Inventories}}$$

*Inventory Turnover* measures the liquidity of inventory. A low *Inventory Turnover* may indicate too much inventory on hand, obsolete inventory, or poor sales.

$$\frac{\text{Average Collection Period}}{\text{Period}} = \frac{\text{Receivables}}{\text{Average Daily Sales}}$$

*Average Collection Period* measures the liquidity of receivables. The *Average Collection Period* should be compared to the terms on which sales are made to determine if the quality of receivables is good and if credit terms are appropriate.

**Debt Management Ratios** measure financial leverage. As financial leverage (the use of debt financing) increases, so does expected return at the expense of increased risk. Since risk is a measure of the variability of earnings, this means the use of debt could raise profits above normal during profitable times, but result in greater losses during non-profitable times. In managing debt, a company needs to find a happy medium between the added benefits of potentially higher return and the problems encountered with being high risk. Two of the debt management ratios are the *Debt Ratio* and *Times Interest Earned Ratio*.

$$\text{Debt Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

*Debt Ratio* measures the percentage of total assets provided by creditors. Creditors like to see a low *Debt Ratio* to minimize potential losses, whereas investors like a high debt ratio to increase leverage and maximize return.

$$\frac{\text{Times Interest Earned Ratio}}{\text{Earned Ratio}} = \frac{\text{Earnings Before Interest \& Taxes}}{\text{Interest Charges}}$$

*Times Interest Earned Ratio* measures the ability to meet interest payments as they come due. It is the degree to which operating income can decline before a business can no longer meet its annual interest charges.

**Profitability Ratios** provide information on the combined effects of liquidity, asset management, and debt management on operating results. The most often used ratios here are *Profit Margin* and *Return on Total Assets*.

$$\text{Profit Margin} = \frac{\text{Net Income}}{\text{Sales}}$$

*Profit Margin* measures the net income generated by each dollar of sales. This is a useful ratio for benchmarking purposes, whether monthly, quarterly, or yearly figures are used.

$$\frac{\text{Return on Total Assets Ratio}}{\text{Assets Ratio}} = \frac{\text{Net Income}}{\text{Total Assets}}$$

*Return on Total Assets* measures the overall profitability of assets. A low ratio indicates assets are not being used efficiently, or that assets are simply too high.

**Market Value Ratios** give management an indication of what investors think of the company's performance. If the liquidity, asset management, debt management, and profitability ratios are all good for a company, the market value ratios are likely to be good also. Market value ratios include *Price to Earnings (P/E)* and *Market to Book*.

$$\frac{\text{Price to Earnings Ratio}}{\text{Earnings Ratio}} = \frac{\text{Price Per Share}}{\text{Earnings Per Share}}$$

*Price to Earnings* gives an indication of how much investors are willing to pay per dollar of earnings. A high *Price to Earnings Ratio* indicates investors believe in the earnings potential of your company.

$$\frac{\text{Market to Book Ratio}}{\text{Book Ratio}} = \frac{\text{Market Price Per Share}}{\text{Book Value Per Share}}$$

*Market to Book* gives an indication of how much investors value the potential of a company. When this ratio is above one, investors believe the company is worth more than the value of its assets. How much more is important when comparing multiple companies or when comparing a company to the industry average.

### **Common Mistakes to Avoid**

- Failure to provide a cash flow analysis and other financial statements
- Unrealistic sales and profit projections
- Failure to make reasonable assumptions (or failure to show what you are basing your projections on)
- Underestimating operating expenses, taxes, and other "hidden" costs
- Terms of the deal are not clear: minimum investment, return on investment, payback period, etc.
- The venture is too high a risk considering potential return being offered
- Salaries, office furnishings, and other "fringes" are out of line (too high) for the startup
- Failure to show that the founders (and other key people involved) have made a reasonable financial commitment (put their own money on the line)

- Amount of stock, or other return on investment being offered is not in line with the proposed investment (giving up too little in proportion to what you are asking them to contribute)
- Failure to explain why the ownership structure and terms of the deal are in the best interest of all concerned
- The proposed return on investment is not in line (too little) with what investors are earning from similar ventures
- No provisions made for transfer of investment or liquidity if the investors want out (or the company wants them out)
- Failure to demonstrate the tax benefits of the investment
- Failure to project the downside if sales don't go as expected
- Failure to have your financial statements and projections prepared and/or checked by a reputable accountant (you can bet the investor will)

Section revised August 2001 by Ryan J. Meyer, Center for Innovation, Grand Forks, North Dakota



# The Finishing Touches

## **The Big Test**

Does your plan accomplish the following?

1. Makes it clear what business you are in.
2. Demonstrates that you are solving a problem or filling a customer opportunity in a unique and special way.
3. Clearly identifies success determinants.
  - Sales margin
  - Advertising/promotion
  - Price
  - Cost control/efficiency
4. Identifies major strengths and advantages.
  - Credit availability
  - Equipment/plant
  - Management/personnel
  - Existing contracts
  - Letter of intent
  - Limited competition
5. Identifies major weaknesses.
  - Location
  - Competition
  - Suppliers
  - Unskilled labor
  - Undercapitalized
  - Poor market identity
6. Shows that the venture has checks and balances between finance, manufacturing/operations, marketing, management and other areas of expertise.
7. Demonstrates that the timing is right.
  - Economical forces
  - Financing/interest rates
  - Market forces
8. Outlines your objectives and time frames, how you will get there.
9. Outlines the inherent problems and potential risks involved.

10. Clearly states what you will do with the money invested.
11. Discusses what the terms of the deal are, potential return on investment over a specified period, and reasonable assumptions on which the projections are based.
12. Summarizes how you will update, revise and refine the plan as situations and events unfold.

### **The Investor Test**

Are you prepared to address five proverbial questions asked of new ventures by prospective investors?

1. If this is such a great idea, how come no one else is doing it?

This question is designed to put you on the spot. The investor may be skeptical because if no one else has tried this, or a similar venture before, it may be because there is no money to be made in it. Your answer may very well be, "There will be competitors emerging after we pave the way and create a sizable market." They want you to justify why it is a viable opportunity.

2. Why are you in this venture?

This question is designed to find out what motivates you. Some people want independence; others are motivated by sheer profit. There are always more reasons to shy away from a deal than there are to risk investing in it. For this reason, investors want to know what you think you will get out of it and what makes you think you can do it. Service to humanity is good and well, but investors want to be assured that you have the confidence and burning desire to be successful. They want to know that you are in business to earn a profit.

3. Have you talked to others in the same or similar business?

This question is designed to find out how much you know about the industry. Investors want to see that you have done your homework, that you have a good handle on most of the operation's variables, i.e., suppliers, transportation, location, labor, insurance, etc., and that you learn from others in the business.

4. Have you tried the product out in the market?

This question is designed to find out if you are market conscious. Investors want to know people will buy the product and that you can adapt to their changing needs.

5. Has your plan been critiqued by an accountant, lawyer, banker, management consultant, and/or other professionals?

This question is designed to discover if this is a one-man show, or if you are a team player. Investors want to see that you can access resources and harness expertise. They want to see that all the appropriate disciplines are actively involved, which minimizes their risk.

### **The Final Test: Do you and your plan have M.O.R.E.?**

**Motive** – Are you and your team motivated? Do you have the drive and ambition to be successful?

**Opportunity** – Does an identifiable opportunity exist? Is the opportunity big enough and attractive enough to pursue?

**Resource** – Are the resources needed for success available, and how will you use these resources if they are made available?

**Experience** – Have you been in this business before? Do you know it inside and out? Have you recruited experienced people to manage and run the important operations?

### **Packaging Your Business Plan**

Your plan should be typewritten and single-spaced. The headings and subheadings should be clearly distinguishable and easy to access. Use standard elite, non-script type (except to emphasize significant points). Have a person who writes well check it for spelling, punctuation and grammar.

Have your lawyer, accountant, and other professionals review the plan. Have them sign off on the sections they helped prepare (as an example, your accountant may include his name and company at the bottom of the financial section). You should number each plan and have a place for the signature of those whom you are circulating the plan. This conveys the value of the plan and helps protect its proprietary nature. If appropriate, include a private placement disclaimer as the first sheet. It is also a good idea to include a personalized foreword to each person to whom you circulate the plan, highlighting his or her particular interests.

Finally, you will want your plan to make a good first impression. The cover should have a rich feel and look, but not be ostentatious or overly expensive. You don't want to give the impression that you squander money. The name of your company or project should be printed on the cover.

# **Appendices**

**Appendix A:  
Supporting Documentation**

**Appendix B:  
Financial Projections**

## **Appendix A: Supporting Documentation**

### **Suggested Length**

As needed

### **Objective**

To provide more comprehensive documentation that supports the information and claims made in various sections of the business plan.

### **Pertinent Questions**

1. Do you have any professional photos of the product, facilities or equipment?
2. What contracts have you signed? (Check and describe)
  - ☐ Management, employment, nondisclosure/non-competition
  - ☐ Suppliers, leases
  - ☐ Customers, investors
  - ☐ Professional counsel
  - ☐ Other
3. Do you hold patent, trade, service mark, or copyright protection papers?
4. Have you developed a biography of all self-performed or professional research, studies or surveys conducted in conjunction with this venture?
5. Have you charted the venture's sales, profits and break-even point by product/service and markets?
6. Do you have a chart that names your major competitors, with their share of the market and annual sales over a 3-5 year period?
7. Have you done a competitive comparison chart of your venture's strengths and weaknesses?

8. Have you any samples of your advertising materials?
9. Do you have resumes and personal references from customers, suppliers, bankers, former employees, etc., on each of the principals?
10. Do you have personal financial statements for each of the principals?
11. Do you have job descriptions for major positions and support personnel?
12. Do you have an organizational chart illustrating the lines of authority and responsibility?
13. Have you outlined your management control systems?
14. Do you have a timeline chart depicting significant milestones and their priority for completion?
15. Have you listed your equipment and other capital expenditures, with a description and the cost of each?
16. Have you graphed the amount of money and timing of the funds to be infused?
17. Have you done a budget deviation analysis?
18. Have you current and projected statements of:  
Profit and loss  
Cash flow  
Balance sheets

19. Have you developed a budget for each department or profit center?

### **Subheadings to Include**

The following is a list of exhibits that you might include in your Appendix:

1. Company and Product(s)/Services Support Materials
  - a. Photos of the product, equipment, facilities
  - b. Patents, trademarks, service marks or copyright documents
  - c. Bibliography of research, testing, and studies conducted
2. Legal Support Materials
  - a. Partnership agreements or management contracts
  - b. Agent/rep agreements or employment contracts
  - c. Noncompetition/nondisclosure agreements
  - d. Equipment, facilities, leases and supplier agreements
3. Market Support Materials
  - a. Magazine, newspaper, trade journal articles
  - b. Marketing, advertising brochures, drawings, mailings and materials
  - c. Market share and sales chart, 3-5 years
  - d. Competitive comparison of strengths and weaknesses
  - e. Customers contacted and status (signed orders)
  - f. Letters of intent
4. Management/Ownership Support Materials
  - a. Resumes of key people, references and letter of recommendation
  - b. Management control systems outline
  - c. Significant milestones and timeframes
5. Administrative and Personnel Support Materials
  - a. Organizational Chart
  - b. Staff training outline for each department/function
  - c. Job descriptions of key positions
  - d. Bookkeeping, purchasing, inventory and other control systems
6. Financial/Investment Support Materials (See Appendix B)
  - a. Break-even analysis of company by product, markets, and total operations
  - b. Financial statements of company and owners
  - c. Equipment and capital expenditures listing
  - d. Graph of amount of funds and timing for investment
  - e. Budget deviation analysis on operations, previous year
  - f. Budgets for each department and profit center
  - g. Additional profit and loss, cash flow and balance statements showing upside, downside, or extended projections

**What to Accomplish**

Demonstrate you have done a significant amount of thinking and work in all areas of the venture. Your exhibits will lend credibility to your plan. More importantly they allow the reader to visualize your accomplishments and goals. Make sure they are attractive, readable and understandable.

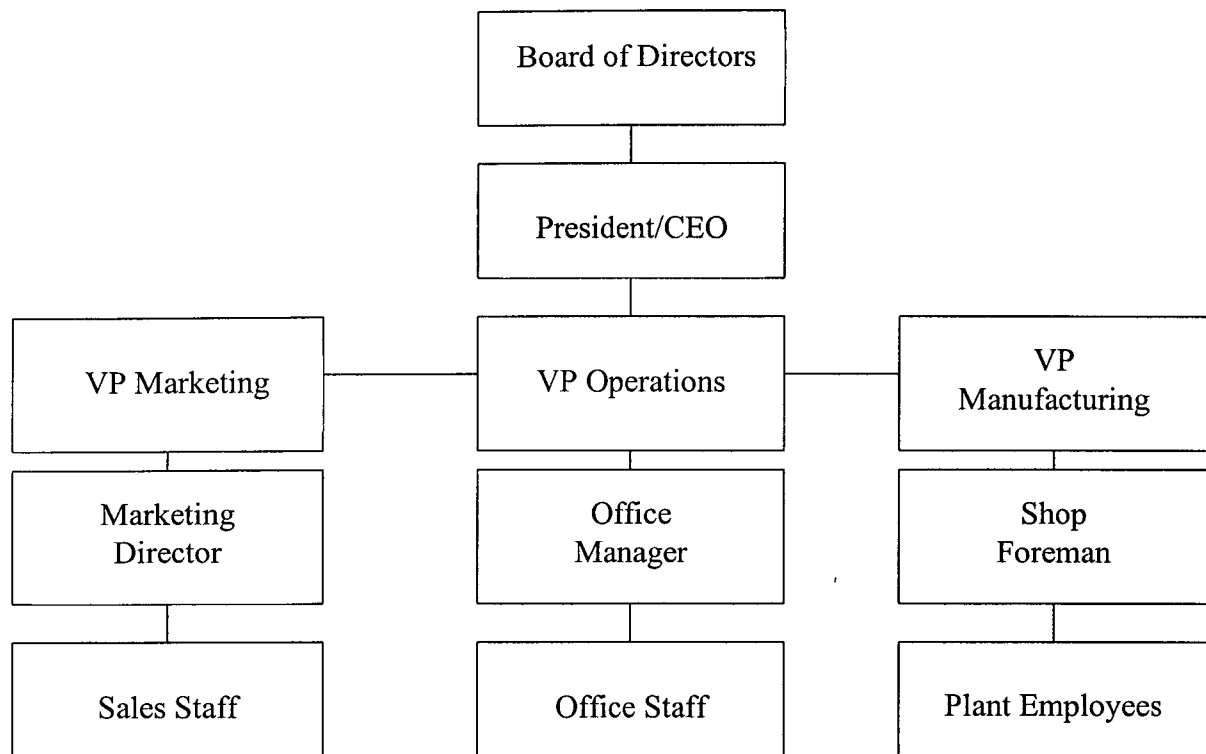
The sequence and format of presentation should be similar to the one above, under "Subheadings to Include."

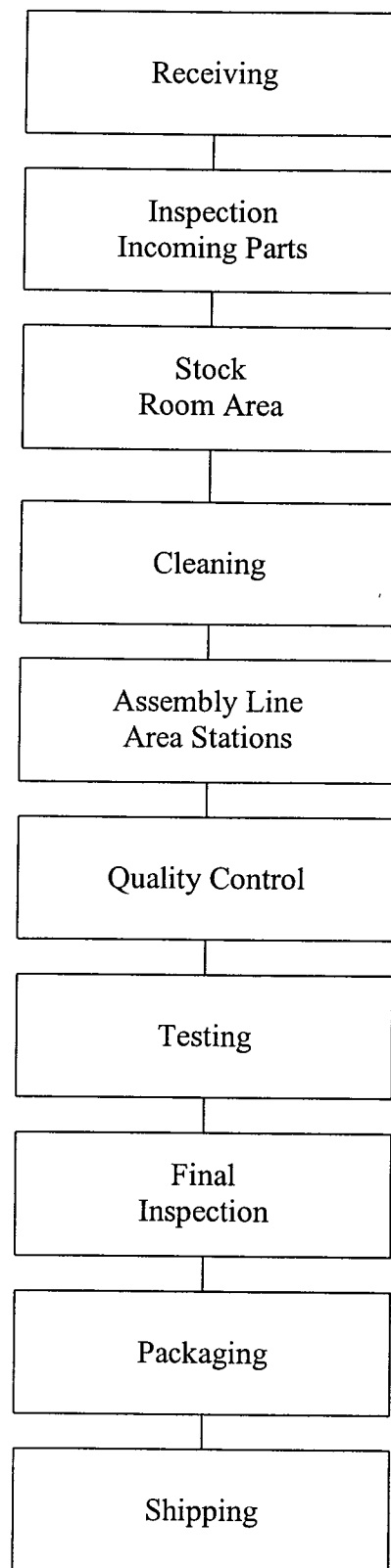
**Common Mistakes to Avoid**

- Exhibits poorly reproduced, difficult to read
- Too technical, or explanations of how to read and interpret the information not provided (some graphs and charts require a legend)
- Failure to list the source or stating on what the information is based
- Arranging material poorly throughout the business plan (most documentation should be used as exhibits and placed in back as reference)



## Sample Organizational Chart



**Sample Operations Layout Chart**

## Sample Time Line Chart

Date	Milestones	Assignment	Alternative Action
1/25/01	Mock-up model completed	Thompson	Drawing
2/28/01 specs.	Schematics drafted	Thompson	Outline of
3/1/01	Working prototype	Thompson/Jones	Subcontract to University
5/1/01 necessary	Evaluation/testing of prototype completed	Thompson/Jones	Make revisions
	Secure additional seed capital needed	Hendricks	Go Ahead Scrap project
6/1/01	Install customer test site	Thompson	License to existing manufacturer
	Assemble second Unit	Jones	
6/30/01	Attend industry trade show - distribute literature  - demonstrate prototype	Martin	Direct mail campaign Ad in industry
7/30/01	Complete Business Plan and Marketing Plan	Hendricks	Executive Summaries to distribute on limited access
9/1/01	Determine venture goals	Full Team	Seek financing Full
Production			Sell Project License
Product			

**Draft Business Plan Presentation****Opening Slide**

- Company Name & Location
- Business/Market
- Unique Advantage of Company
- Age
- Size
- Annual Sales
- 3 Year Goals

**Slide Two**

- Core Competency
  - What do you do best
  - Uniqueness
- Products in the Marketplace
- Customer Base

**Slide Three**

- Company Objectives
  - Capital
  - Partner
  - License
  - Etc.
- Mission Statement

**Slide Four**

- Products and services
  - What is it
  - Benefits/uniqueness
- Intellectual Property
- Barriers to Competitors Entry

**Slide Five**

- Technology -- Value to Customer
- Intellectual Property Protection
- Source of Technology (SBIR info, etc.)
- Company Position in Technology Field
- Key Personnel
- NOTE: Product demos are done on breaks

**Slide Six**

- Market for the Product
  - Global
  - Niche
  - Projections/market share

## **Draft Business Plan Presentation**

### **Slide Seven**

- Competition
  - Current technology & products
  - Cost and performance
  - Indirect competition
- Your “edge”

### **Slide Eight**

- Sales and Distribution Strategy
- Commercialization Strategy
  - Follow-on Development
  - Partners
  - Suppliers

### **Slide Nine**

- Management Team
  - Technical
  - Business
- History and relevant experience

### **Slide Ten**

- Business Accomplishments to Date
- Business Developments to Date
- Plans for the Next 3 Years

### **Slide Eleven**

- Financial Issues & Projections
  - Revenues
  - Income
  - Cash Flow
  - Capitalization Requirements
- Exit Strategies

### **Slide Twelve**

- Next Steps to Growth
- Challenges for Company
- Solutions to Challenges
- Resources Needed
- Desired Characteristics of Investment Partners

## **Appendix B: Financial Projections**

- Atlas Business Solutions' Ultimate Business Planner
- Preparing Financial Projections Manually
  - Income Statement
  - Balance Sheet
  - Cash Flow Statement
  - Personal Financial Statement

## **Atlas Business Solutions' Ultimate Business Planner**

### **Ultimate Business Planner™**

Atlas Business Solutions' Ultimate Business Planner is a software package that gives financial and non-financial experts a fast and easy way to build a financial forecast and write a comprehensive business plan. Ultimate Business Planner breaks down financial forecasting and business planning into simple, easy-to-follow steps, complete with "plain-English" instructions.



### **Take the guesswork out of business planning**

Ultimate Business Planner guides you through each business-planning step quickly and easily. Developed for entrepreneurs by small-business experts and small-business owners, Ultimate Business Planner simplifies the process of writing a business plan and gives you expert advice, tips, and hints based on proven business practices.

You don't need any special business expertise to use Ultimate Business Planner. Its easy-to-use, step-by-step approach breaks down business planning into two main sections -- forecasting your financials and writing your plan.

### **Financial forecasting made easy!**

The first question in any new business is "*Will my business make money?*" In just minutes, Ultimate Business Planner can help you build a comprehensive set of financial projections, complete with reports and charts. You'll not only know whether your idea will make money, but when it will make money. Unlike spreadsheets, you won't have to deal with complicated calculations, create formulas, or design and build reports or graphs.



**General**

**Step 1 - Setting up your business**

This is where it all starts. The General section features a step-by-step interview specially designed to help you easily input the information you need to set up your financial forecast and business plan. You'll be asked a series of general questions about your business, including:

- Business name
- Starting date
- Business type
- Employees
- Credit policy
- Credit information



**Sales**

**Step 2 - Entering your monthly sales forecast**

In the Sales section, you'll input your monthly sales forecast and define your cost of sales. First, you'll need to define your sales categories. These are the products or services you plan on offering. Each sales category can be forecasted in either dollars or units. Once your sales categories have been defined, you can input your monthly sales forecast for each sales category. Ultimate Business Planner is packed with features and functions that let you enter your numbers quickly and try unlimited "what if" scenarios.



**Expenses**

**Step 3 - Entering your monthly expense forecast**

In the Expenses section, you'll input your monthly expense forecast. Simply enter an estimated dollar for each of your expense categories. Similar to the Sales section, Ultimate Business Planner is packed with features and functions that let you enter your numbers quickly and try "what if" scenarios. Below is a list of some common expenses you may have in your business:

- Advertising
- Automobile
- Bank charges
- Consulting fees
- Entertainment
- Franchise fees
- Insurance
- Legal fees
- Office supplies
- Postage
- Rent
- Repairs
- Salaries & Wages
- Telephone
- Utilities



**Launch**

**Step 4 - Bringing it all together**

In the Launch section, you'll be asked a series of questions about things you'll need for your business. It includes questions about:

- Items you own or need to buy
- Inventory and supplier terms
- Minimum cash balance
- Cash you have available to invest
- Loans to secure funds



Once steps 1 through 4 have been completed, Ultimate Business Planner automatically generates the following reports and charts:



### Reports

Beginning Balance Sheet  
Profit & Loss  
Balance Sheet  
Cash Plan

Ratio Analysis  
Sales Forecast  
Expense Budget



### Charts

Profit & Loss  
Financial Position  
Cash Summary  
Break-even – Sales Analysis  
Break-even – Cash Analysis

Sales by Category  
Expenses by Category  
Sales Forecast  
Expense Budget

### Business planning simplified

Now that your financials are finished, you're ready to write your business plan text and put your plan onto paper. Relax! Ultimate Business Planner walks you through every step with plain-English instructions, advice, and how-to hints. Ultimate Business Planner even comes complete with sample business plans.



### Step 5 - Writing and assembling your business plan

A well-written business plan should cover all the important matters that will contribute to making your business a success. These include:

- Your basic business concept.
- Your products and services and their competitive advantages.
- The markets you'll pursue.
- The background of your management and key employees.
- Your strategy and the specific actions you plan for implementing it.
- Your financing needs.

That may sound like a lot of ground to cover, but Ultimate Business Planner makes it easy by walking you step-by-step through every aspect. Below is the sample outline contained in Ultimate Business Planner. With just a mouse click, sections can be added, deleted, or edited. Ultimate Business Planner can be quickly customized to meet your business's needs.

**Executive Summary**

- Introduction
- Business Opportunity
- Product/Service Description
- Current Business Position
- The Request

**Company Background**

- Introduction
- Business Description
- Company History
- Current Position and Business Objectives
- Ownership

**Products**

- Introduction
- Product Overview
- Competitive Analysis
- Suppliers and Inventory
- Research and Development

**Services**

- Introduction
- Service Descriptions
- Competitive Comparison
- Service Delivery
- Research and Development

**The Industry, Competition and Market**

- Introduction
- Industry Definition
- Primary Competitors
- Market Size
- Market Growth
- Customer Profile

**Marketing Plan**

- Introduction
- Competitive Advantage
- Pricing
- Distribution Channels
- Promotional Plan
- Feedback

**Operating Plan**

- Introduction
- Location
- Facility
- Operating Equipment
- Suppliers and Vendors
- Personnel Plan
- General Operations

**Management, Organization and  
Ownership**

- Introduction
- Management/Principals
- Organizational Structure
- Professional Consultants
- Ownership and Boards

**Goals and Strategies**

- Introduction
- Business Goals
- Keys to Success
- Future Plans

**Financial Assumptions**

**Packed with business start-up resources**

In addition to everything you'll need to complete your business plan, Ultimate Business Planner comes jam packed with hundreds of business start-up resources. From a list of small business-friendly banks and idea protection agencies to SBA district offices and economic development departments, Ultimate Business Planner has all the contact information you'll need to get your business idea up and running. Each of Ultimate Business Planner's resource sections is packed full of contacts, associations, and web sites you can turn to for information on:

- Accounting and Taxes
- Advertising and Marketing
- Credit Services
- Customer Service
- Equipment and Software
- Franchise and Business Opportunities
- General Small-Business Resources
- Government Agencies
- Home-based Business Resources
- Inventors and Idea Protection
- Online Services and the Internet
- SBA District Offices
- Small Business Development Centers
- Small Business-Friendly Banks
- Start-Up Assistance
- State Commerce and Economic Development

**System requirements**

100% IBM compatible Pentium or higher PC

Windows 95/98/2000/NT 4 or higher

16 MB RAM

20 MB free hard disk space

VGA or higher resolution monitor (800 x 600 recommended)

CD-ROM Drive (if ordering CD)

**How to get Ultimate Business Planner?**

Ultimate Business Planner is available from Atlas Business Solutions, Inc. You can either order by phone at 1-800-874-8801 or order on-line at [www.bptools.com](http://www.bptools.com).



3330 Fiechtner Drive SW

Fargo, ND 58103

Phone: 701-235-5226

Toll-free: 800-874-8801

Fax: 701-280-0842

Ultimate Business Planner is a trademark of Atlas Business Solutions, Inc.

## Preparing Financial Projections Manually

In order to answer the five key financial questions, you must develop three types of financial projections for each alternative venture concept under consideration. The three types of projections (or proforma analyses) are:

1. Proforma Income Statement,
2. Proforma Balance Sheet, and
3. Proforma Cash Flow Statement.

In addition, you will want to prepare a personal financial statement to better assess your own ability to fund your venture and to show to outside investors/lenders as part of your funding proposal. Any assumptions made in estimating the numbers should be footnoted and summarized on a separate page after each appropriate financial statement.

You can generate a proforma income statement with nothing more than an estimate of future sales and expenses. Certain expenses may increase in proportion to sales increases and should be projected as such. If you have additional information about future production, sales, and overhead charges, you will be better able to project profits or losses.

The proforma balance sheet statement lists all of your venture's assets, liabilities, and equities. Enter the appropriate figures as forecasted for the period. This forecast will show you whether your venture has the resources it needs to meet its sales objectives.

Having enough cash on hand to pay all disbursements is essential if your venture's survival. The proforma cash flow indicates whether your venture will have sufficient cash for the coming year or whether you will need outside funding. You should fill out the cash flow on a monthly basis so that you can determine the maximum cash required during the period and when the maximum cash need will occur.

***WARNING:*** *If you are preparing these projections with a spreadsheet, you must understand that the individual statements are not integrated and consequently may contain inaccurate numbers upon which you may (unknowingly) be basing important decisions.*

The use of a software package like Ultimate Business Planner can reduce the chance of your financial statements including errors.

Section revised August 2001 by Ryan J. Meyer, Center for Innovation, Grand Forks, North Dakota

# **Proforma Balance Sheet** **For Period Ending \_\_\_\_\_**

**Assets:**

## Current Assets

Cash

Securities

Accounts Receivable

Inventory

Prepaid Expenses

Other Current Assets

Total Current Assets

## Fixed Assets

Land

Buildings

Equipment

(less accumulated depreciation)

Other Fixed Assets

Total Fixed Assets

**Total Assets****Liabilities:**

## Current Liabilities (due within 12 months)

Accounts Payable

State and Federal Taxes Due

Short-Term Debt

Current Portion of Notes Payable

Total Current Liabilities

## Long Term Liabilities

Notes Payable

Business Mortgages Payable

Other Long Term Liabilities

Total Long Term Liabilities

**Total Liabilities****Owner's Equity**

Cash or Asset Value Invested

Retained Earnings (or loss)

**Total Owner's Equity****Total Liabilities and Owner's Equity**

**Proforma Income Statement**

**\_\_\_\_ Month Period Ending \_\_\_\_\_**

**Sales Revenue**

Sales

Less: Returns & Allowances

**Net Sales Revenue**

**Cost of Goods Sold**

**Gross Profit**

**Operating Expenses**

Salaries and Wages

Payroll Taxes

Commissions

Employee Benefits

Rent

Utilities

Repairs/Maintenance

Telephone

Office Supplies

Postage/Printing

Advertising

Professional Services

Auto/Delivery

Insurance

Licenses and Permits

Interest

Depreciation

Other

Miscellaneous

**Total Operating Expenses**

**Income from Operations**

**Other Revenues and Gains**

**Other Expenses and Losses**

**Net Income (Loss) Before Taxes**

**Income Taxes**

**Net Income (Loss)**

# **Proforma Cash Flow Statement** **\_\_\_\_\_ Month Period Ending \_\_\_\_\_**

**Beginning Cash Balance**

\_\_\_\_\_

**Cash Receipts & Disbursements**

Cash Receipts

Cash Sales

Accounts Receivable Collections

Owner Input

Loan

Total Cash Receipts

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

=====

Cash Disbursements

Merchandise

Salaries and Wages

Rent

Utilities

Repairs/Maintenance

Telephone

Office Supplies

Postage/Printing

Advertising

Professional Services

Auto/Delivery

Insurance

Permits

Taxes

Miscellaneous

Loan Payment

Capital Purchases

Owner Drawing

Other

Total Cash Disbursements

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\_\_\_\_\_

=====

**Net Cash Receipts & Disbursements Surplus (Deficit)**

=====

**Additional Funding (Repayments)**

\_\_\_\_\_

**Ending Cash Balance**

=====

**Personal Financial Statement  
For Period Ending \_\_\_\_\_**

**Assets**

Cash

Savings

Stocks, Bonds, and Other Securities

Accounts/Notes Receivable

Life Insurance Cash Value

Automobiles and Other Vehicles

Real Estate

Retirement Accounts

Other Assets

**Total Assets**

**Liabilities**

Credit Card Balance

Taxes Payable

Student Loans

Automobile Loans

Notes Payable

Other Accounts Payable

Mortgage on Real Estate

Other Liabilities

**Total Liabilities**

**Net Worth**



# Glossary

The following words and phrases are frequently used business terms. Most of them are found throughout this guide in the text of the various modules. The definitions are our own. The context in which we use them may not necessarily be the same context in which other sources use them.

**ADMINISTRATIVE SYSTEMS** - internal procedures for handling bookkeeping functions, such as accounts receivable, accounts payable, checking/investment accounts, payroll and other financial and office functions.

**ADVERTISING ALLOWANCES** – an arrangement with a supplier, customer, distributor, retailer or other party to advertise or promote your product in exchange for a reduced rate or higher margins for themselves.

**ADVERTISING MEDIUMS** – trade journals, newspapers, magazines, radio, TV and other forms of communication that reaches your customers.

**ASSUMPTIONS** – preconceived notions or hunches on which you base reasonable financial projections or other probable developments.

**BACK-UP SYSTEM** – procedure and contingency plans for switching to other available equipment should your main equipment breakdown or become unusable. Switching to other available suppliers should your primary suppliers go out of business or stop servicing you.

**BENEFICIAL IMPACTS** – the positive results your product will have on customers, the community, economy, environment or other societal force. The problem it solves, the opportunity it fulfills, the needs it meets.

**BRAINSTORMING** – a management technique used to foster ideas, solve problems, set goals, establish priorities and make assignments for their accomplishment.

**BREAK-EVEN POINT** – the point at which all fixed and variable costs associated with manufacturing a product and doing business equals the amount of income from sales.

**COMMON STOCK** – documents that represent the book value of the business. Also known as capital stock, common stock certifies the amount of ownership in the company.

**COMPENSATION PACKAGE** – the total value a founder, manager, or other employee receives for their involvement in the business. May include salary, share of profits, stock or other type of ownership and other benefits (insurance, auto, retirement plan, etc.).

**CONSIGNMENT SALES** – having a retailer, wholesaler or other sales outlet obtain and stock your product at no charge, and taking a predetermined percent of the gross receipts when they sell it.

**CONVERTIBLE DEBENTURES** – a loan that allows the debt holder to choose whether or not to convert the remaining outstanding debt into stock at a predetermined price.

**CORPORATE AFFILIATIONS** – the position, role, or association a member of your Board of Directors or management team has with other companies. (Important to show experience, contacts or possible conflict of interests.)

**COPYRIGHT** – legal protection that prevents any party from duplication or using any material or information from a publication without expressed approval from the owners of the publication.

**CYCLE ORDER** – as it applies to an inventory control system; a procedure for ordering or replacing stock based on predictable levels of activity with production or within the industry (seasonal factors).

**DEBT WITH WARRANTS** – a loan that obligates the company to repay a certain amount of money over a certain period of time at an agreed upon rate, carrying with it the right to purchase stock at a fixed price within a specified period of time. (Differs from convertible debentures in that all debts must be repaid and, in addition, the note holder is given warrants. Under convertible debentures, the note holder might not recoup the full loan before buying the stock.)

**DEMOGRAPHICS** – a profile of the measurable distinctions of a target market, including: age, sex, marital status, family size, income, profession, education level, etc.

**DIRECT MARKET** – the easiest, fastest and least expensive area or contact with the company's target market for product information.

**DISTINCTIVE COMPETENCE** – the training, skills, talents, education, experience and performance an individual or company possesses. Whatever it is that you do well, makes you special from most others.

**DISTRIBUTION NETWORK (or CHANNELS)** – the method used to get the product from manufacturing to the consumer. Common distributors are wholesalers, retailers and manufacturer's representatives.

**DOWNTIME** – the periods or amount of time that equipment or operations stop running, due to service maintenance, repairs, breakage or lack of business.

**EARNING PROJECTIONS** – the amount of revenue a business expects to receive from sales, investment or other income producing operations within a given period. Usually displayed on an income (profit and loss) statement and/or cash flow statement. See proformas.

**ECONOMIC BENEFITS (Trickle Down Effect)** – the positive results your company has on the economy, i.e., creating jobs, injection of new capital into the community, increasing the revenues of existing businesses, etc.

**EFFICIENCY RATIOS (Conversion Rates)** – as it applies to marketing a product/service the amount of time, calls, money, ads, mailing and other marketing activities it takes to make a sale. Example: 50 calls to get 10 presentations. Ten presentations to get one sale.

**FIXED ORDER** – as it applies to an inventory control system; a procedure for ordering or replacing a set amount of stock at a determined time (every three months).

**FIXED vs. VARIABLE COSTS** – fixed costs DO NOT vary with the level of output, i.e., salaries and rent. Variable costs vary with the level of output, i.e., supplies and overtime.

**GROWTH PATTERNS** – the trends and positive speculations within an industry that indicates a promising outlook for business. Growth patterns are based on the overall economic condition, emerging technology, effect of government regulation (or deregulation) and other indicators.

**GROWTH POTENTIAL** – the increased amount of money, expansion, activity and other developments that are likely for a company based upon popularity and marketing of its product/service, management skills, industry growth patterns and other factors.

**INDUSTRY PROFILE** – the history, participants, total sales volume, trends, growth potential, and other pertinent facts on a particular industry.

**INDUSTRY STANDARD** – a common basis of operating, pay levels, etc. between companies in the same industry. Example: it is now an industry standard for fast food restaurants to have drive-through windows.

**INVENTORY CONTROL SYSTEM** – a procedure for ordering, replacing and accounting for required inventory. See fixed order and cycle order.

**JURISDICTION** – the agency or governing body that has the authority to impose and/or enforce regulations.

**LEARNING/EXPERIENCE CURVE** – expecting performance and results to improve as one gains knowledge and experience. A person's output will be directly proportionate to how much they know about the product, the company, the players and the industry as a whole.

**LETTER OF INTENT** – a letter addressed to your company from a customer, supplier, distributor or other interested party, stating their desire to do business with you. (A letter of intent does not necessarily oblige the party writing it, but can be an influential device to sway prospective investors to finance the venture based on evident industry and market support.)

**LEVELS OF (MARKET) PENETRATION** – how much of the market you expect to reach. Reaching 10 percent of a nationwide market is a higher level of penetration than reaching 60 percent of a local market. The percent of the market you hope to capture must be specifically defined. The higher the percent, the more resources it will take to reach and service.

**LICENSING AGREEMENT** – a contractual relationship with a manufacturer and/or distributor to produce and/or sell your product (usually in exchange for royalties).

**MBO (MANAGEMENT BY OBJECTIVES)** – a management technique for setting goals and objectives, and basing incentives upon their attainment.

**MARKET IDENTITY** – the ability to create familiarity and loyalty for your product/company in the eyes of the customer through promotions, packaging, labeling, product name and other factors.

**MARKET FORCES (BARRIERS)** – ingredients in the market that will affect the success of your product/company, i.e., government regulation, competition, availability of suppliers, etc.

**MARKET NICHE** – a particular appeal, identity or place in the market that your product/company has. What you do well, different or better than others in the market.

**MARKET SEGMENTS** – a separation of markets by broad categories, i.e., by product, by customer, by geography, by industry. Example: marketing computers for the home is a segment different from marketing computers to businesses.

**MARKET SHARE** - the percent of the target market a company hopes to capture.

**MARKET TRENDS** – factors that indicate where the market is headed, i.e., changes in customer needs or habits, shifts in population, establishment of new industries in the area, etc.

**METHODS AND PROCESSES** – the technology, operating, assembly or other features that make the product viable and special.

**MILESTONES** – significant accomplishments attained in the venture, or major junctures the business is steering towards (prototype completion, signing a major customer, etc.).

**NONCOMPETE/NONDISCLOSURE AGREEMENTS** – legal agreements stipulating that the signee not disclose confidential information about the company and product, and/or preventing the signee from joining or starting a similar venture.

**OPERATING ADVANTAGES** – the strengths of the business, especially as they apply to competition. Maybe better equipment, faster production, cheaper transportation, and other factors that enhance the efficiency and marketability of the company.

**OPERATING COSTS** – all expenses involved in running the business. See fixed costs and variable costs.

**OPERATING LAYOUT** – how the production facilities will be set up. How equipment will be grouped, workstations located, storage, tool shop, and other divisions established.

**OWNERSHIP INTEREST/DISTRIBUTION** – who owns what and how much, i.e., partnership percentage, share of profits, kind of stock and number of shares.

**PATENT/PATENT PENDING** – a grant by the federal government to an inventor of the right to exclude others for a limited time from making, using or selling his invention in this country. A patent may protect the concept, process and/or product itself.

**PAYBACK PERIOD** – the period of time in which an investor in a start-up business can recover initial investments and earn a return on the investment. Most payback periods are between 3 and 5 years.

**PERSONAL FINANCIAL STATEMENTS** – assets and liabilities balance sheet and tax returns for three years. (Sometimes required by prospective investors of the founders/managers of the start-up.)

**PREFERRED STOCK** – stock granting guaranteed dividends or other rights above that of common stock.

**PRIMARY SUPPLIERS** – the critical major suppliers of parts, components and other goods and services to your company, upon which your business depends.

**PRINCIPALS (KEY PEOPLE)** – the founders, managers, Board of Directors and other important decision-makers of a start-up company.

**PRODUCT APPLICATIONS** – the potential uses of your product, perhaps directed at different markets.

**PRODUCTION CAPACITY** – the total amount of equipment, space, time or other resources available to achieve maximum output.

**PRODUCTIVITY QUOTAS** – the amount of salary, commissions, bonuses or other payments based on specific levels of production and performance.

**PROFIT POTENTIAL** – the amount of money, less cost of goods sold, that can be made from a product in a particular industry based on predetermined levels of production and set prices.

**PROFORMAS** – projected financial performance statements include: balance sheets, income sheets, and cash flow sheets.

**PROTOTYPE** – a model, mockup or first assembly of a new product.

**PROXIMITY TO CUSTOMER BASE** – geographical location of a company's target market in relation to the company. Mode of marketing, delivery and service is considered.

**QUALITY CONTROL SYSTEM** – procedures, checks and balances used to ensure the integrity of each product unit.

**REGULATORY (APPROVAL) REQUIREMENTS** – the restrictions, licenses, laws and regulations applicable to a product or company, imposed by federal, state or local government agencies.

**RIGHTS AND OPTIONS** - as it applies to investment in a start-up; the agreement outlining what, how and when ownership payback is exercised.

**RIO (RETURN ON INVESTMENT)** – the annual percent or money made from investing in a start-up over a specified period of time.

**STAGE OF DEVELOPMENT** – as it applies to a product; prototype, research and development, short-run production, full production (distribution or other level of activity). As it applies to a company; start-up, expansion/diversification or other level of operation. As it applies to an industry; introduction, growth, maturity, peak/saturation, decline.

**STRAIGHT DEBT** – a form of financing a start-up. A loan at a specific interest rate to be repaid over a set number of months.

**TARGET MARKET** – particular segment(s) of the market, which the product is directed towards. The initial customers you hope to win over.

**TAX BENEFITS** – the deductions, protection, savings and other shelters that result from investing in a start-up.

**TRADEMARK** – protection of a company's name, logo or other symbol, by the U.S. Government, preventing another party from using it.

**WORKFLOW/PRODUCTION CONTROL PROCEDURES** – the best use of equipment, personnel, supplies, materials, and other resources to maintain efficient operations.

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